

# **CHAPTER-II**

## **REVIEW OF RELATED LITERATURE AND METHODOLOGY**

## **2.1 INTRODUCTION**

This chapter is concerned and focused attention on the huge and scattered related literature of public expenditure and economic development level. It is organized as follows the first section gives us introduction of related literature, while the second section is concerned with the survey of general studies that have been done by well known economists and economic writers. The third section covers the works that related to Gujarat state. In section four, we attempted to highlight and present the hypothesis and objectives of our study. Then the research methodology and collection of information in section five is covered. The scope and limitations of the study along with the chapters design are presented in the last section.

Most of the analysis in economic literature of the role of public expenditure in economic development has been conducted in terms of the situation obtained from economically developed nations. The role of public expenditure in economic development is a relatively recent phenomenon and so much is to do with the collapse of the principle of laissez faire, the rise of modern welfare states and imperatives of accelerated economic development of a developing country or a state. An attempt is made in this study to review the controversy about public expenditure and economic development in Gujarat State. Wagner (1835-1917), a German economist had attempted to analyze the growth of public expenditure with assistance of the historical facts, namely those relevant to Germany, had been explained by R.M. Bird (Wagner's Law of Expanding State Activity). Peacock and Wiseman (1961) presented their study of public expenditure of the UK over the period 1890- 1955. cited in Walter F. Stettner (1945): " Sir James Stellart was one among the first to hold the view now upheld by the adherents of the "New Orthodoxy: that public debt should function as the balance wheel of the economy" which had been criticized by Adam Smith and Hume

both believed that the collapse of public debt was inevitable. Then the view of classical economists led by the French economist J. B. Say who observed that "there is a grand distinction between an individual borrower and a borrowing government, that in general the former borrows capital for the purpose of beneficial employment, the latter for the purpose of burden of consumption and expenditure". Adam Smith, Hume, Say and Ricardo disapproved of public debt because they thought it interfered with the natural order which was conducive to the creation of wealth and increase in material welfare of the nation.

## **2.2 SURVEY OF INTERNATIONAL AND NATIONAL STUDIES:**

Numerous theoretical and empirical studies have been done in the case of developed, developing and the least developed countries. Here, we would like to survey a number of studies related to developing countries and some works related to Indian national studies such as Bihar, Maharashtra, Orissa and Uttar Pradesh. Vast studies, research papers and books are there in case of Gujarat; here we cover many among them in case of economic development as general and the impact and role of public expenditure on economic development of Gujarat in particular. The effect of public finance and the way it affects economic development are crucial to the understanding of the role of fiscal and monetary policies which have generated an enormous and voluminous amount of literature, such as Wagner (1886), Tobin (1963), Anderson and Jordan (1968), in case of Argentina, it has been done by Tanzi (1977), Aghevli (1977) studies in the case of Indonesia, Jensen 1992, Saiyed (1997) studied the working of monetary policy and its role in debt management in India. Many research papers and books are written by the Gujarati economists and some working papers which are related to economic development of Gujarat State are published in

Gujarat Institute of Development Research, we cite most of them in our study as in following:

**Di Renato Balducci<sup>1</sup>** verifies the results obtained by Barro (1990) in relation to the effects of both productive investments and public consumption on economic growth are also confirmed in a more general context. It was observed that public expenditure may exert an effect on the economic growth rate through the positive externality in the productivity of the capital stock. When public expenditure in the households' utility function is considered, a further effect operates to modify the saving and investment decisions of households, depending on the relative weight of public consumption. In particular, if households consider public expenditure to be useful. It shows that – whatever the exogenous fiscal policy may be – the growth rate is always higher than it is in the case of productive investments alone. Moreover, if households are able to choose the optimal income tax rate, an optimal growth rate greater than the maximum one may be obtained

**Paramjeet Kaur, Dhindsa and Seozy Bhatia<sup>2</sup>** analyses the differences in poverty levels across states in India during the period 1991-2001 in doing so, it seeks to focus on interstate differences in economic growth as an explanation. The important objective of the study is to find out the relationship and significance of physical infrastructure and human resource development in reducing poverty. The results of the study prove that relationship between poverty and infrastructure development index (IDI) as weak over time, whereas the relationship of poverty with Human Resource Development Index (HDI) has got stronger over time. Thus, human development has become more relevant for poverty alleviation than infrastructure development between states.

**Shantayanan, Vinaya, and Heng-fu Zou<sup>3</sup>** focused on the link between the level of public expenditure and growth, and derive

conditions under which a change in the composition of expenditure leads to a higher steady-state growth rate of the economy. The conditions depend not just on the physical productivity of the different components of public expenditure but also on the initial shares. Using data from 43 developing countries over 20 years shows that an increase in the share of current expenditure has positive and statistically significant growth effects. By contrast, the relationship between the capital component of public expenditure and per-capita growth was negative. Thus, seemingly productive expenditures, when used in excess, could become unproductive. These results imply that developing-country governments have been misallocating public expenditures in favor of capital expenditures at the expense of current expenditures.

**Protiva Kandu**<sup>4</sup> observed that the results of 'benefit incidence analysis' powerfully explains which expenditure group actually benefited from the government's subsidized education and how this benefit is distributed between males and females in India across states and regions. This helps to understand the root causes of gender disparity in India and helped in provide a guideline for developing a gender sensitized education policy.

Gender disaggregated benefit incidence analysis of government spending on education is able to give the answer why the poorest expenditure class has less accessibility to public education specially at the higher level of education. The main reason behind this is greater gender enrolment bias among the poor people in the society.

Relative disadvantage of female is least at the elementary level. It is also observed that the relative disadvantage of female is corrected with household expenditure. With increase in level of per capita expenditure, the gain of subsidy for female also increases.

These results show that public spending on education benefited males more than females in 1999-2000 in India and all its states. This can be explained in two ways. First, households choose to enroll males more than females at all levels of education, so, despite higher public spending, is not properly targeted to the regions of higher gender disparities. The result is failure of public spending in reducing gender disparity.

**Saiyed<sup>5</sup>** has empirically, attempted, to examine the role of the central monetary authority in Indian context in facilitating the debt management and fiscal operations during 1970 to 1995. He has also examined the behaviour of public expenditure, trends in sources of revenues and overall deficit on the central bank's debt holdings operations. Further, he has empirically evaluated the Reserve bank of India credit and government finance in the short-run as well as in the long-run. He concluded that the results obtained strongly support the contention that: "National Debt has statistically strongly and positively influenced the level of RBI Net Credit to Government." He has also examined the influence of deficit and found that: "deficit statistics gave clear indication of absence of autocorrelation among residue duals." Further, he examined the influence of NRBIG on Reserve Money." Reserve Money (R.M) is statistically strongly influenced by NRBIG. Thus debt holding operations were chiefly responsible for considerable variations in R.M."

**Fosu.K.Y.<sup>6</sup>** found that gross domestic product from agriculture, per-caput agricultural income; government tax revenue, total government expenditures, and the ratio of agricultural to non agricultural income have exhibited a casual relationship with the levels of public agricultural expenditures. These causality test results indicate that public agricultural expenditure levels are determined by public financial resource availability and the perceived need to accomplish the

agricultural policy objectives (1) increasing agricultural output, (2) increasing the income of agricultural workers, and (3) increasing agricultural incomes relative to incomes in the rest of the economy. The study results clearly show that the type of government and the type of economic management have made a difference in the level and rate of growth of financial resources devoted to agriculture. The estimated policy effectiveness elasticities indicate that public agricultural expenditure policies have been generally ineffective in inducing increases in aggregate agricultural output during the period.

**Mukherjee<sup>7</sup>** observed that the role of education in economic development has been recognized for quite some time in mainstream economic literature. Divergence between the private and social rate of return from education is the rationale for intervention by the state in ensuring equity in opportunity across the population. The so called New Growth Theories predict that higher levels of schooling and better quality of workforce will lead to an increase in the rate of growth, further strengthening the case for public expenditure on education. The outcome of these lines of research also has implications for the financing of education. However, the effectiveness and efficiency of resource allocation by the government has generated considerable debate, both from ideological and technical points of view. It is widely acknowledged that there is a large scope for improvement in both the level and the quality of publicly funded education. New institutional arrangements are being designed to address the deficiencies in incentives and monitoring, thereby improving quality.

**Lalitha<sup>8</sup>** argues that for the overall development of the state, efforts should be made not only to attract large flow of investments but also in the direction of reducing the regional imbalances besides periodical review of administrative procedures. He further enquires into the working of the intricate federal politics in connection with the public

sector industrial location in India, supposed to help in reducing regional imbalances in growth.

**Tapas K. Sen and Krishanu Karmakar<sup>9</sup>** observed that the human development sectors, overlapping substantially with the social services, are primarily in the domain of the states in terms of the constitutional assignment of functions in India. In the urgent and substantial task of raising the level of human development of their citizens, the basic challenge faced by most of the states of India is to break the vicious circle of poverty, low human development and low income. Low levels of income across the population also limit the ability of the state governments to finance human development through their own resources. This is clearly indicated by the strong association between public expenditures and per capita incomes often noticed by researchers, both across states and over time. Moreover, within the framework of fiscal responsibility legislation which has been enacted by the centre as also several states (After the strong support it got from the Twelfth Finance Commission), it is not feasible to vigorously push for public expenditures financed by deficits, and consequent borrowings.

Over and above this constraint, for most of the states a large part of budgetary expenditure consists of committed expenditure of some sort or the other (salaries, interest payments, loan repayments and other contractual payments). Given that in the short and even in the medium term most of these expenditures cannot be reduced drastically and that the macroeconomic performance cannot be suddenly improved through action at the state level, an important method of managing resources to finance consistent and balanced human development lies in the reprioritization of current expenditure in accordance with the urgent needs and shortfalls in particular areas. Such reprioritization should also lead the states to a better macroeconomic future, through improvements in key areas. The key issue then is what scope is there



for reallocating public expenditures at the state level to finance increased attention to human development? To provide some empirical content to this discussion, we try to develop an objective method for reprioritization of public expenditure in this paper. The suggested framework may be taken to yield a benchmark for any prescription for expenditure reallocation. As we shall see below, the method is particularly suitable for analysis of sub national expenditure although it can conceivably be used to analyze public expenditures of a group of governmental units at any level.

**Muhlis Bagdigen & Hakan Cetintas<sup>10</sup>** expounded that in most countries, data based on public expenditure as a fraction of national output show that public sector has an inevitable trend of growth in the long run (Scully, 1989). Turkey is one of these countries. Her public expenditures as a fraction of national output show that public sector has an inevitable trend of growth in the long run. Turkey is one of these countries. Her public expenditures have been expanding for decades. For the period of 1965-2000, for example, the ratio of total public expenditure to Gross Domestic Product was 18.02 percent in 1965 while it was almost doubled in just 35 years to 35.5 percent in 2000.

The phenomenon of public expenditure growth has been subject for researchers to find out what causes or has affects on it. Wagner (1883) introduces a model that public expenditures are endogenous to economic development, i.e. growth in the economy also causes public sector expenditures to expand. Keynes (1936) and his supporters, however, raise the though that during recession times the use of fiscal policies boosts economic activities, i.e. expansionary fiscal policies, expanding public expenditures etc., increase community output.

**Lekha S Chakraborty<sup>11</sup>** examines the impact of public expenditure on human development across selected developed and developing countries. Using fixed effects model of pooled least squares

for the early 1990s, the analysis of the link between per capita public expenditure on health and education and Human Development Index (HDI) revealed that there is a positive functional relationship between the variables. This result is not a denial of the effectiveness of growth in per capita income in promoting human development, rather an emphasis on the public policy stance, in terms of public expenditure on human capital formation. The panel estimates showed the public spending on education and health has a stronger impact on human development than the growth of per capita income.

Using a 5-sector CGE model, we solve a Leontief system iteratively and present a slightly non-standard range of medium-term scenarios to account for political outcomes that could transpire over the medium term (2006-2008). These outcomes result from varying combinations of Palestinian employment in Israel and Palestinian exports (both affected by the political environment) and various donor funding levels. For each of three scenarios, we show associated levels of consumption, GDP, employment and poverty. Given this range of outcomes, we discuss fiscal and donor expenditure policies.

Greater sustainability of economic performance would be indicated by increased private investment. Time series decomposition techniques illustrate how economic aggregates have recently shifted due to the recent economic crisis; in 2000, the historical role of the private sector in providing the leading stimulus to the economy was succeeded by government. Although a reversal of this change is not anticipated in the medium-term, it is the gauge by which economic policies should be measured. We argue that donor funding (quasi-public) should expand beyond favored areas like budget support, health and education, into support for the private sector. This can be done without endeavoring beyond donor mandates, and should include

private sector support services, specifically in trade, that lead to the development of an efficient market oriented economy.

**Allen Ruhangataremwa<sup>12</sup>** defines poverty monitoring and evaluation in Uganda is a process in which many institutions have a stake to ensure that all-important aspects are covered. This is embedded in the poverty monitoring Strategy that provides an overall framework for monitoring and evaluation. Already a number of Institutions are collecting information that is of relevancy to the PEAP/poverty monitoring. The ministry of finance, Planning and Economic Development has the overall responsibility for poverty monitoring. With in MFPED, the poverty monitoring and Analysis Unit (PMAU) coordinates the poverty monitoring efforts through the poverty monitoring.

**Balooni and Singh<sup>13</sup>** witnessed that India has vast tracts of wastelands, which have been lying barren for ages. Most such lands are physically suitable for growing trees and thus could be put to socially productive uses. However, although usually economically viable, afforestation requires massive initial investment, generally beyond the means of the landowners. Also, government budgetary allocations do not cover current needs. In this situation, institutional credit is required. The national bank of Agriculture and Rural Development (NABARD) of India has recognized this need and has devised a number of different schemes to provide refinance facilities to individuals and organizations. Although the number of forestry schemes refinanced by NABARD has increased rapidly in the past, they currently constitute only about 1% of the total number of loans sanctioned and only about 2% of NABARD's cumulative loan disbursement to date. In fact, since 1992, the share of afforestation schemes has declined. A number of factors have been identified as major constraints, including time consuming and complicated procedures for accessing land,

restrictions on harvesting and selling trees, delays in sanctioning and disbursement of bank credit, non remunerative prices for tree products, and flawed public policies and programmes. This article argues that unless these constraints are overcome, NABARD will not be able to play an effective role in speeding up development programmes in the forestry sector. It further argues that most of the current constraints on institutional credit for wasteland afforestation can be removed or relaxed. Practical strategies are suggested to mobilize more funds and channels more institutional credit for wasteland afforestation in India.

**Niloy, Emranul, and Denise<sup>14</sup>** examines the growth effects of government expenditure for a panel of thirty developing countries over the decades of the 1970s and 1980s, with a particular focus on sectoral expenditures. Their improves on previous research on this topic by explicitly recognizing the role of the government budget constraint and the possible biases arising from omitted variables. Our primary results are twofold. Firstly, the share of government capital expenditure in GDP is positively and significantly correlated with economic growth, but current expenditure is insignificant. Secondly, at the sector level, government investment and total expenditures in education are the only outlays that are significantly associated with growth once the budget constraint and omitted variable are taken into consideration.

**Terukazu Suruga<sup>15</sup>** observed that the existing endogenous growth theory considers either the effects of FDI or public expenditures on economic growth separately. As far as we concerned, no theoretical growth model has taken into account the interaction effect of these two factors. As found out by Le and Suruga (forthcoming), there is evidence that excessive spending in public expenditures can hinder the beneficial impact of FDI. This article examines some other potential relationships between FDI and public expenditure and proposes that more efforts should be contributed in building a theoretical model which presents the

interrelationship between these factors in determining the long-term economic growth rate.

**Keith, Niloy and Emranul<sup>16</sup>** presents a dynamic general equilibrium analysis of public sector corruption and economic growth. In an economy with government intervention and capital accumulation, state-appointed bureaucrats are charged with the responsibility for procuring public goods which contribute to productive efficiency. Corruption arises because of an opportunity for bureaucrats to appropriate public funds by misinforming the government about the cost and quality of public goods provision. The incentive for each bureaucrat to do this depends on economy-wide outcomes which, in turn, depend on the behaviour of all bureaucrats. We establish the existence of multiple development regimes, together with the possibility of multiple, frequency-dependent equilibria. The predictions of this analysis accord strongly with recent empirical evidence on the causes and consequences of corruption in public office.

**Jodylyn M. Quijano and Dante R. Garcia<sup>17</sup>** presents evidence using Granger causality test that there is no support of Wagnerian hypothesis in the Philippines. Johansen's co-integration and vector error correcting method established a long run relationship between government spending and economic growth from 1980 – 2004. It was found that short run changes in real GDP have significant positive effects on government spending and that about 1.38 percent of the discrepancy between the actual and the long run, or equilibrium value of real GDP is eliminated or corrected each year.

Using stepwise multiple regression analysis, private investment, degree of openness and people power movement were identified as significant factors affecting government spending. On the other hand, factors like private investment, supply of revenue total outstanding of public debt, degree of openness, political stability, globalization and the

commencement of the World Trade Organization were found to be statistically significant affecting economic growth.

**Montek**<sup>18</sup> examined macroeconomic data for the 14 major Indian states which reveals the extent of inter-state differences in the pace of economic growth in the past decade. Rising regional inequality, as measured by an increase in the Gini coefficient from 1986-87 to 1997-98, has important implications for poverty reduction. Because of state specific characteristics, the divergent patterns of economic growth witnessed in the 1990s do not necessarily imply that the economic reforms of economic growth witnessed in the 1990s do not necessarily imply that the economic reforms at the national level were biased. But to mitigate such regional differences in the future requires deepening reforms and addressing the specific deficiencies that have decelerated growth in some states. The study finds that there are variations in the private investment, productivity growth and in turn, economic development, particularly in Gujarat, Maharashtra and Karnataka. The role of the central government in supporting the developmental activities of the states and funding large scale infrastructure development is also considered.

The impact of India's economic reforms on economic performance has been the subject of much academic study and public debate in India, but the focus has been largely on the performance of the economy as a whole or of individual sectors. The performance of the economy as whole or of individual states in the post reforms period has not received comparable attention and yet there are very good reasons why such an analysis should be of special interest. First, balanced regional development has always been one of the declared objectives of national policy in India and it is relevant to ask whether economic reforms have promoted this objective. Second, India's federal democracy is increasingly characterized by regionalization of politics,

with politics at the state level being driven by state rather than national issues, and this makes the economic performance of individual states an issue of potential electoral importance. This is particularly so because liberalization has eliminated many of the controls earlier exercised by the central government and thereby increased the role of state level performance shows considerable variation across states, with many states recording strong growth in the post reforms period, it is important to identify the reasons for their success in order to replicate it in other states.

**Sarma and Sarma<sup>19</sup>** provides a detailed review of the past fiscal trends in India, analyzes the current fiscal situation at the Centre and the States and attempts to project the likely alternative scenarios for the future. The study identifies the possible corrective measures that need to be taken to ensure sustainable development. It shows that there is considerable scope for fiscal adjustment especially at the state and local levels. The study attempts to identify specific areas in which there is room for foreign direct investment that is needed to accelerate development

**Douglason G. Omotor<sup>20</sup>** observed that government expenditure on education in Nigeria is categories under the social and community services sector. The importance of education in national development cannot be overemphasized hence its cardinal position in various objectives of most developing countries. In Nigeria over the years, elements of uncertainty have beclouded this sector both in nominal and in real terms. Incessant strikes, closure of schools and other vices account for poor quality teaching and quality of products. The objective of this study is to examine the profile of educational expenditure in Nigeria (1977-1998). An education expenditure model was constructed and tested using the ordinary least squares (OLS) technique. The estimates though not overwhelmingly robust, it was discovered that

federal government revenue is the singular significant determinant of educational expenditure model. It is the recommendation of this paper that other sources of financing education should be encouraged.

**Renato**<sup>21</sup> verifies the robustness of Barro's (1990) result that the most powerful policy instrument is public spending on productive investments. When we consider that all public expenditure interacts with private consumption to increase utility, a further channel for influence on the growth rate opens up. Public consumption modifies the economy's saving and investment decisions. Therefore, by applying the same exogenous tax rate, it is possible to obtain a higher growth rate than the one obtained with public investment only. The difference between the two rates of growth is due to a different intertemporal elasticity of substitution which depends on the weight of public consumption  $\beta$  in the utility function. Finally, if it is assumed that in the long run the government adopts the policies most desired by households, we obtain an optimal income tax rate positively related public consumption and the optimal growth rate may be greater than the maximum one by deriving from public investment only.

**Gulati**<sup>22</sup> Presented the preamble of the National Rural Health Mission (NRHM) Document released with lot of fanfare by our Prime Minister in April 2005 recognizes the importance of Health in the process of social and economic development and improving the quality of life of our citizens. The government of India (GOI) resolved to launch the NRHM to carry out necessary architectural corrections in the basic health care delivery system, including merger / integration of vertical structures, delegation and decentralization of administrative and financial powers, empowering of Panchayati Raj Institutions (PRIs), preparation of Operational Guidelines for the Implementation of the mission, Logistic arrangements, IEC, MIS, etc. The mission adopts a synergistic approach by relating health to determinants of health viz.



nutrition, sanitation, hygiene and safe drinking water. It also aims at mainstreaming the Indian systems of medicine to facilitate health care. The plan of action includes increasing public health expenditure on health, reducing regional imbalance in health infrastructure, pooling resources, integration of organizational structures, optimization of health manpower, decentralization and district management of health programmes, community participation and ownership of assets, induction of management and financial personnel into district health system, and operationalising Community Health Centers into functional hospitals meeting Indian Public Health Standards in each block of the country. The goal of the mission is to improve the availability of and access to quality health care by people, especially for those residing in rural areas, the poor, women and emphasis on the rural health in the Mission's documents in terms of strategies, plan of action, allocation of resources, architectural or operational corrections seems to have relegated other crucial issues of national concern like informed choice of quality contraception, urban health, and ageing to the background.

**Shaun Peters Ferguson**<sup>23</sup> Provides a unique experience for studying public and quasi-public expenditure in risky environments- indeed the economic policy space available to the developing governments is practically limited to expenditure allocation under the political circumstances. Their main policy agenda has been to balance between 'current' and development expenditures; it recognizes that the public payroll is unsustainably high, and is committed to reducing government employment. Proper sequencing of new fiscal policies, however, will be essential to ensure private sector confidence and sustainable economic revitalization.

**Rangarajan**<sup>24</sup> concluded that nowadays, the Human development Index on the model of global human development index is being computed for different states in India to understand inter-state

differences in income and social development. We have now the figures available for 2001. The rank co-relation co-efficient between the Income Index and the Human Development Index across states in India is positive at 0.76. This coefficient is somewhat similar to the correlation among medium human development countries. This goes to show that there are many states in which there are wide disparities between what is the model of economic growth that is appropriate for India? Development has many dimensions is condition for achieving many other dimensions of development. Development must ensure equality of opportunities for all. However, equality of opportunities does not necessarily guarantee equalities in incomes. With some people good at converting opportunities into income and others not being so, different individuals will end up with different levels of income. That is why it is necessary to assure every one a minimum level of living along with equality of opportunities. Every person must have his or her basic needs met. These basic needs include access to services such as food, education, health care and shelter. Without sacrificing these goals, the economy must remain efficient. It is only an efficient economy that can generate the surplus necessary to meet the socio-economic goals. We need, therefore, to stress simultaneously economic development in the conventional sense of accelerating growth rate and social development in the sense of securing for everyone the basic needs. The two have a mutually interacting beneficial impact and the two must be pursued together. These are the two legs on which the country must walk. Any strategy of development, which ignores any one of the two legs, will only make the country limp along. To achieve higher levels of human development in our country, we need a three pronged approach comprising of higher economic growth, a higher proportion of expenditure, particularly public expenditure on social sectors, and efficient utilization of the funds allocated. Growth and equity should not be posed as opposing considerations. They must be weaved together to

produce a coherent pattern of growth. Therein lies the challenge of development.

**Deepa Ravat and Chauhan<sup>25</sup>** explained that the pattern of the education sector in India, based on the assumption of the future requirements of the economy shows that the higher expenditure on primary education does not fulfill the needs of the economy as a whole. If, we want to develop the economy in this new era of globalisation, then the public expenditure on secondary education and on higher education must be increased we cannot produce the skilled manpower as per the requirements of the various sectors of the economy especially the industrial sector and service sector. The authors are of the view that the expansion of secondary and higher education should not be brought about at the cost of reduction in expenditure on primary education. Rather the allocation for secondary and higher education should be filled up by involving the private sector with proper safe guards. The private sector in education should not be allowed to function purely on profit making motives. Hence a highly empowered regulatory framework is required to monitor the working of the private sector in education.

**Enisan Akinlo and Olufisayo Akinlo<sup>26</sup>** examines the effects of financial development, money and public spending on national income in a developing country. The results of the study, obtained using the Vector Error Correction model, show weak evidence for supply-leading view of financial development. In addition, the results provide some support for the McKinnon-shaw repressionist proposition. Finally, there is no clear evidence to support monetary and fiscal policy effectiveness in the country. The research suggests that efforts should be geared towards the development of the financial sector, in particular, further deregulation of the sector. However, financial deregulation should be one in such a manner that the rate of interest is not allowed to be too

high to discourage borrowing or too low to discourage saving and engender inefficient and unproductive investment.

**Ravi Duggal**<sup>27</sup> observed that countries with universal or near universal access to healthcare have health financing mechanisms which are single payer systems in which either a single autonomous public agency or a few coordinated agencies have poor resources to finance healthcare. This contributes to both equity in healthcare as well as to low levels of poverty in these countries. It is only in countries like India and a number of developing countries, which still rely mostly on out of pocket payments, where universal access to healthcare is exclusive. In such countries those who have the capacity to buy healthcare from the market most often get healthcare without having to pay for it directly because they are either covered by social insurance or buy private insurance. In contrast, a large majority of the population, who suffers from a hand to mouth existence, is forced to make direct payments, often with a heavy burden of debt, to access healthcare from the market because public provision is grossly inadequate or non existence. Thus, the absence of adequate public health investment not only results in poor health outcomes but it also leads to escalation of poverty. This study critically reviews the linkages of poverty with healthcare financing using evidence from national surveys and concludes that public financing is critical to good access to healthcare for the poor and its inadequacy is closely associated with poverty levels in the country.

**Niloy, Holman, and Kyriakos**<sup>28</sup> explores how the optimal mode of public finance depends on the level of economic development. The theoretical analysis suggests that in the presence of capital market imperfection and liquidity shocks, the detrimental effect of inflation on growth is stronger (weaker) at lower (higher) levels of economic development. Consequently, income taxation (seignior age) is a relatively less distortionary way of financing public expenditure for low-

income (high-income) countries. It provide empirical support for our model's predictions using a panel of 21 Organization for economic cooperation an Development countries and 40 developing countries observed over the period 1972-1999. (JEL E44, E6, O42)

**Kurian<sup>29</sup>** observed that India is often characterized as an emerging economic super power. The huge demographic dividend, the high quality engineering and management talent, the powerful Indian diaspora and the emerging Indian transnational knelling the optimism. In contrast, there is another profile of India which is rather gloomy. This is the country with the largest number of the poor, illiterates and unemployed in the world. High infant mortality, morbidity and widespread anemia among women and children continue.

### **2.3 EMPIRICAL AND THEORETICAL STUDIES FROM GUJARAT:**

The forthcomings are some empirical studies done with much concerned to Gujarat state, mostly, from Gujarat Institute of Development Research at Ahmedabad and some works reported on the Economic and Potential Weekly and Internet. All these studies are related to economic development of the state and started as follow:

**Archana Dholakia<sup>30</sup>** found that Gujarat needs to raise its non tax revenue to ease its fiscal crisis. This article analysis Gujarat's non tax revenue and subsidies to find possibilities of improvement. Contrary to the spirit of economic reforms the state in Gujarat is more active in areas from which it should withdraw as shown by high economic subsidies, and it is less active in areas where intervention is called for as shown by low social sector subsidies.

**Poulomi Roy<sup>31</sup>** expounded that one of the important features of the Indian economy is the disparate growth of state domestic product

(SDP). In India regional disparity in growth of output has increased mainly in the post reform period. Given the fact that inter state disparity in growth rate among the Indian states exists and persists, it has now become very essential to give a close look at the individual state level.

A growth model to study the growth performances of its states in India is developed following Barreto (2003) with little modification to fit data and problem of states in a federal country like India. We have shown theoretically that growth of SDP depends on how much state decided to purchase private capital which in turn determines the size transfers made by the several government ministries.

The empirical part of the paper evaluates the effect of public capital on economic growth of four states in India. This paper highlights the role of public productive spending policy on economic growth of the four states in India. This paper highlights the role of public productive spending policy on economic growth of the four states in India. This paper not only assesses the effect of state's own productive policy on economic growth but also evaluates the contribution of center's productive transfer policy on economic growth. This study also helps us to check which sector, public or private, plays crucial role in the high growth state. This will help the poorer states to decide their strategy so that they can also achieve higher growth as in the high growth states. This paper also highlights on how efficiently states uses resources by making a comparative study of efficient resource allocation by the public and private sector in a state.

On the basis of data availability and also to give a close look at the individual state level we have concentrated on four fastest growing states, Maharashtra, Gujarat, Tamil Nau and West Bengal. The period of this study is from 1981 to 2000 that is, we have taken years from pre reform period and post reform period.

Given this, first we attempt to check as far as possible on the basis of reasonable assumptions, whether variations in state domestic product (SDP) of a particular state in India over time can be attributed to differing levels of public capital? For this we have studied the elasticity of output with respect to public and private capital in different states in India. Having done so, we try to seek answers to a few related questions. How to states' own productive expenditure policy and the centre's transfer of productive resources affect the growth of public capital and thereby the elasticity of output with respect to public capital. Then we measure the efficiency of resource allocation by the states over the period 1981-2000.

On the other hand, it was observed that during the period 1981-2000 public capitals did not play any significant role on economic west Bengal. Therefore it was observed that allocative inefficiency in resource allocation is present. It was observed that inefficiency in the allocation of real plan expenditure thus private capital is existing in these states.

**Basant<sup>32</sup>** found that the major findings are summarized in the context of other macro changes in the economy and related to the available literature on the subject. An analytical description of the trends and patterns of rural non-agricultural employment in Gujarat is presented. Both macro and micro data are used for this purpose. First, on the basis of secondary data, the patterns in Gujarat are compared with those at the all India level. Subsequently, the published data are used to analyze the changes in rural non-agricultural employment in the districts of Gujarat. Finally, micro-level profile of the broad diversification processes suggested by the survey data is presented. The study looks at the production by artisans in rural Gujarat. It provides a macro-view of changes in rural household manufacturing sector, and presents a micro profile of artisan households in the survey villages. This is

devoted to the analysis of the determinants of non-agricultural employment in rural Gujarat at the macro and micro levels. The determinants of inter-district and inter-taluka variations in rural non-agricultural employment are analyzed on the basis of the available secondary data. Finally, survey data are used to analyze factors, which influence diversification choices at the individual level. The inter-linkages between poverty and the labour market are explored in two distinct regions (states) of India. The complexity of the linkages is highlighted. There is no direct or one-to-one correspondence between the poverty status and labour market entry or interaction of rural households. What determines poverty has therefore to be understood before one can unravel its inter-linkages with the labour market. Consequently, a framework of enquiry is developed which distinguishes between the exogenous determinants of poverty and the response of the household to its economic status, captured through endogenous determinants. The determinants of poverty are categorized into structural, household and public policy related factors. The household may determine its interaction with various markets-land, labour, credit, etc. thus, the interaction of poverty with the labour market is analyzed within socio economic context. The rural poor are not passive actors on the stage of life, as the analysis of the determinants of poverty might suggest. The second issue addressed is that how the households cope with poverty and stagnant incomes given the demographic structure of the households.

**Bhatt and Shah<sup>33</sup>** observed that party politics has played havoc with the functioning of Gujarat State Finance Commission. Not only was it dissolved before it could submit its full report, but the recommendations made show that the commission has protected the interest of the state government at the cost of Panchayat Raj institution.



**Indra**<sup>34</sup> examines that Gujarat has a relatively high per capita income, a diversified economy and workforce and developed financial and capital markets. On the other hand, the state lags behind in terms of the quality of employment and several dimensions of human development. This research seeks to delineate the profile of Gujarat's development with a view to understanding the mixed results and inferring the likely directions of future development.

**Ravindra Dholakia**<sup>35</sup> stated that the development strategy in Gujarat has been very clear since its inception in 1960 in according a high priority to industrialization. The impact of economic liberalisation on the state economy should, therefore, be examined in terms of the performance of industrialization in the state.

**Mathur Niti and Kashyap**<sup>36</sup> provides a statistical profile of pre- and post-green revolution agriculture in Gujarat. Changes in cropping pattern has been shifting in favour of non-traditional non-food crops. Gujarat needs investment in infrastructure and strategies for sustainable resource use to improve productivity in agriculture.

**Parthasarathy**<sup>37</sup> found that the basic philosophy of participatory irrigation management programmes in Gujarat as in other states has been to transform irrigators from beneficiaries to partners in the planning and development of irrigation. An analysis of the experience of the programme shows that farmers' involvement in water management has indeed led to a better and smoother resolution of irrigation-related conflicts. However, the other expectation that the programme would reduce state expenditure has not materialized as yet. Water users' associations will have to be more efficient in making allocative and investment decisions. For this a clarification of legal rights is imperative.

**Joshi**<sup>38</sup> examines that Gujarat is not a homogeneous society or culture as it is often understood to be. There are three subcultures each

with a different ethos within the broader framework of Gujarat culture: the Mahajan culture of the central belt; the semi-feudal culture of Saurashtra and the tribal culture in various parts of the state. Each has contributed differently to the development of the state.

**Kundu<sup>39</sup>** suggest that both proponents and critics of new development strategy agree that urban growth in the post liberalization phase would be very high, although the critics hold that this will be associated with low productive employment and poverty and a negative effect on quality of life in the cities. It is important therefore to assess empirically the impact of economic liberalization on the nature and pattern of urban growth. This article attempts an analysis of the trends and patterns of urbanization in Gujarat, a rapidly industrializing state, taking account of the changes in labour market and those in the systems of urban governance, land management development practices and the commercialization of basic services.

**Dinesh<sup>40</sup>** found that Gujarat state has responded well to economic reforms and industry has grown, especially manufacturing industry. For long term growth, a greater emphasis on the infrastructure sector is needed. Small scale industry can be helped by promoting cluster. The article presents relevant statistical data.

**Darshini<sup>41</sup>** observed that while Gujarat has registered a significant improvement in key health statistics, the health situation in the state shows some paradoxes. A comprehensive analysis of the health status over the years, public health expenditure, the growth of health facilities in urban and rural areas and in the private and public sectors indicates that rather than technical inputs, it is the development model adopted that impinges on health status.

**A Shah and Sanjay<sup>42</sup>** observed that the overall progress of the project has been found very well and the programme could further be improved on attending the suggestion give above. This year watershed area received only 50% of the average annual rainfall. Due to this

drought condition survival percentage of all plantations was very low. It is also important to quote the, increasing additional area irrigated by open wells due to ground water recharging activities and construction earthen water harvesting structures in the region after the different programme activities. We strongly recommend that the organisation should believe in active and effective involvement of local community and leadership to take up maintenance and protection of plantation, other water harvesting structures and sharing the benefits of the projects to make the project environmentally sustainable.

**Tushaar Shah and O.P. Singh<sup>43</sup>** empirically expounded that Gujarat's 1997 census of below poverty line (BPL) households as well as the village amenity survey of the same year, this research explores the interplay between irrigation development and rural poverty in 177 predominantly rural talukas of Gujarat. The analysis shows, among other things, that irrigation's impact on the BPL ratio in a taluka is relatively small in magnitude but statistically highly significant, and that talukas with high irrigation density (irrigated area / net sown area) have significantly lower than average BPL ratio and conversely. Likewise, talukas with the highest rural BPL ratio tend to have low irrigation density and conversely. While urbanization and industrialization emerge as big 'rural poverty reduces', for design of poverty targeting programmes, two variables have highest appeal: investing in primary education infrastructure and improving land productivity through irrigation.

There is however some evidence to suggest that, over long run, irrigation benefits within command areas may approach a zero sum game, and that irrigation impact studies focused at farm or command area level may understand overall livelihood impacts of irrigation development within command areas and outside. This is because areas with intensive irrigation development act as magnets that attract poverty from their surround, especially from other dry areas. Population pressure on farm lands thus tends to get redistributed according to the

carrying capacity of farm lands. Across 177 predominantly rural talukas of Gujarat, we find an inverse relationship between land use intensity and land man ratio, we also found that as that productivity output / hectare of net sown area) declines, output per rural person declines too, but far more slowly than would have been the case without the magnet effect. This suggests that, over a period of time, changing structure of rural population results in population pressure on farm lands rising faster (or declining at a slower rate) on intensively irrigated areas compared to dry land areas. The taluka level evidence from Gujarat suggests a mild but definite tendency in the land / man ratio to rise in tandem with land use intensity.

**Teri<sup>44</sup>** shows that the current state of the water sector in Gujarat revealed that the distribution of water resources in Gujarat was uneven leading to a significant exploitation of groundwater in deficient areas. In addition, the state has a complex institutional structure with multiple agencies and overlapping jurisdiction with many SPVs (special purpose vehicles) in the water sector for the execution and operation of specific projects, principally those linked with the Sardar Sarovar Project. The augmentation of water supply and improvements in water quality call for significant investments but it has been recognized that the state cannot finance these activities on its own. Private investment in the water sector will be required to augment the efforts of the state and this fact has been recognized in Gujarat. The need for an enabling framework to introduce private sector participation was felt which would address many complex issues to balance the interests of both consumers and investors in the liberalized environment in Gujarat.

**Jammejay Singh and Parmesh Shah<sup>45</sup>** observed that the public sector of most developing countries is often the target of numerous criticism – lack of or no infrastructure, absenteeism of service providers like teachers and doctors, poor quality of services, corruption, non transparency, favoritism, discrimination, etc. While several of these criticism are usually attributed to lack of resources and the conflict

between the needs of equity and those of efficiency, research has shown in general that the correlation between increased public expenditure and actual outcomes or improvements in service delivery is weak. This gap between spending and development outcomes reflects on more serious deficiencies of 'voice' and 'accountability' for citizens in general, and the poor in particular.

The need for making services work for poor people is therefore immense, and has provided the theme for the World Bank's World Development Report (WDR) for 2004. As part of its preliminary thinking on the topic the WDR which has highlighted at least four roots of the services delivery problem. Firstly, either the government is misallocating resources that is, spending on the 'wrong' goods or the 'wrong' people. This effectively is a budgeting or resource allocation problem. Secondly, the resources never reach frontline service providers – thus even if resource allocation are correct, expenditure 'leakages' mean that money doesn't reach its ultimate destination. This is an expenditure-tracking problem. Thirdly, even when the money reaches the service provider, the incentives to provide the service may be weak. This lack of incentives can be attributed to the problem of accountability and monitoring. Fourthly, there may be a demand side failure that is, people may not avail of the services provided to them. This is to a large extent a problem of awareness and participation. The way to improve upon public service delivery, especially for the poor, is thus, to find mechanisms by which to surmount these difficulties. This study argues that participatory public expenditure management (PPEM) provides a set of such mechanism.

**The Government of Gujarat<sup>46</sup>** has taken a decision to improve the quality of life of its citizens especially the most vulnerable and disadvantaged sections of society. To this end various initiatives and strategies for focusing government efforts and brining about qualitative improvement in the lives of women, children and the poor were considered. After careful consideration, the State Government of

Gujarat has decided to undertake a pilot project to develop a convergence model for the state. Long-term objective of this project would be to package useful social sector schemes together at delivery level thereby maximizing their impact and efficiently utilizing scarce financial resources through active involvement of community. This will be achieved by improving following indicators by 50% in next three years: Infant mortality rate, malnutrition reduction among children, women and adolescents, Increase in institutional deliveries, decrease in girls drop-out rate, increase in Below Poverty Line(BPL) per capita income, and, improved quality of life for women.

**Wagle and Shah<sup>47</sup>** indicates the state of Gujarat hosts almost a tenth of India's 80 million tribal people. Despite official rhetoric of significant investment in tribal development projects, results on the ground were questionable. This promoted DISHA (Development initiatives for social and human action) to get into the business of budget analysis in 1992 to ascertain what actually was happening to funds allotted in the name of the tribals under the Tribal Area Sub Plan. DISHA thus began by first taking up the issue of the state's 7.3 million forest laborers, not recognized as a formal professional group, but have since broadened the scope of their work to cover most aspects of budget analysis of general topics. Describe as an attempt at "democratizing the budget process" Secondly, DISHA obtains budget documents, reviews and dis-aggregates departmental allocations for different beneficiaries, researches the discrepancy between proposed and actual spending, and prepares briefs on synthesized findings for informed public debates. DISHA is one of the five largest membership based NGOs in India with most of its 80000 members drawn from tribal and forest workers.

**Misra<sup>48</sup>** attempts to quantify direct as well as indirect costs and benefits of selected components of government expenditure on education. When education is considered as a part of system pertaining to social services and social services are linked meaningfully with real

sector variables, expenditure on economic services and socio demographic variables. Distributional impact of government expenditure on education is examined in accordance with three different criteria. The study is to determine optimal government expenditure and associated policy for future years annually for the state of Gujarat and its three selected development blocks. Regional variations in respect of existing problem areas and their solutions are revealing and the same suggest that effort should be made to follow decentralized approach for educational planning and the same ought to be compatible with relevant man power needs of the economy in question.

**Ravindra Dholakia**<sup>49</sup> discussed need for the developing a regional accounting framework and estimating relevant variables to formulate realistic growth targets and appropriate development strategy in the reform era for the Gujarat state as a case study. Elementary regional accounting framework and estimates of crucial macroeconomic aggregates at the state level in India are attempted for the first time for Gujarat to derive implications on resource availability and investment requirement to achieve alternative growth targets. The study finds that Gujarat is a high saving society comparable to China and Korea, but invests much less domestically. Although it is a net importer internationally, it is a major net exporter within the country.

**Sudha Menon**<sup>50</sup> analyses the potential growth prospects of Gujarat economy in the context of globalization and Vibrant Gujarat. It focuses on evaluating the Vision 2020 project of Gujarat and the need for specific long-term and short-term policy initiative to integrate the macro economic growth model with social and human development aspects. Gujarat can enter into an exciting era of growth because of various changes happening in the environments, which Gujarat can adapt and react to in a proactive fashion. This has opened up new markets defined new growth paradigms in textiles, chemicals, agriculture, auto components, pharmaceuticals etc., which have a major presence in Gujarat. The vision 2020 target of Gujarat includes

spanning economic growth, quality of life, gender equality citizen welfare and efficiency of governance. In particular the vision is to attain GSDP growth rate 5.5 times, attain per capita income by 4.4% create 15.3 million new jobs and achieve 100% literacy, create world class infrastructure, power supply, drinking water, participation and empowerment of women, investment in education etc. while evaluating the target it is clear that Gujarat is striving to rectify the gaps in existing growth centric model to ensure balance social and economic development. Specific steps like building self reliant and vibrant rural communities, creating sustainable city management and providing health care of all citizens etc. gives a human face to the accelerating growth potential.

**Goliat and Lokare<sup>51</sup>** explained that over period of time, agriculture investment has been losing its share, more rapidly since the 1990s led by loss in momentum of public sector and compounded by inadequacy of farm credit. Not only the pace of investment has been slow, but even the pattern of investment has skewed. The share of agriculture and allied activities in the total development expenditure in the case of agriculturally important states such as Punjab, UP, Gujarat, Bihar and Karnataka is below the national average. Inadequacy of new capital formation has slowed the pace and pattern of technological change and the infrastructural development with adverse effects on agricultural productivity. The need to step up domestic investment in agriculture sector. Investment in agriculture needs to be accelerated to achieve the desired level of growth of over 4 % per annum as envisaged by the 11<sup>th</sup> five year plan. The public investment with a proper choice of project portfolio would be crucial for inducing private investment. Furthermore, public investment alone cannot be expected to fill the investment gap in agriculture. Therefore the government has to create a favourable policy and development support environment for private sector (both domestic and foreign agri business investors) to fill the investment gap in agriculture.



**The Government of Gujarat preamble<sup>52</sup>** has taken note of the growing recognition of impacts of climate change at the local, national and global levels. The government recognized the urgent need to tackle challenges that arise on account of these impacts through integrated policy prescriptions and programmes aimed at mitigation of impacts and adaptation to reduce vulnerability of systems. The government is also cognizant of the cross cutting nature of impacts with enormous cost implications for tackling them and that these costs could escalate if preventive action is not taken immediately.

Gujarat has been in the forefront of industrial development in India and has shown significant leadership in other spheres of economics and social development too. It is essential to sustain this leadership through preventive and other value added interventions. The aim of these interventions is to reduce the spread and depth of externalities and reduce vulnerability in multiple spheres of economic development.

The exhaustible reserves of fossil fuels and their volatile market prices further contribute towards energy insecurity of nations. Government recognizes the central role of energy in this context and need to have a policy for "efficient use of conventional energy, proactively establish and promote sustained use of new and non conventional energy, proactively establish and promote sustained use of new and non conventional energy sources and applications to reduce emissions and related impacts of climate change. This is also essential to prevent avoidable erosion of natural carbon energy resources the state is endowed with. Based on this climate efficient initiative" the state has decided to promote energy efficiency measures, adopt preventive management techniques and build capacities in which all concerned stakeholders to contribute and sustain successful transitions to a more energy efficient future duly emphasizing the local relevance of alternatives.

This multi pronged approach will not only reduce the growing economic and environmental burdens at the present but will help ensure energy security of sustainable growth and development in the future too. Taking lead in this initiative the state has decided to lap the vast potential in the state for solar energy. In this context the state of Gujarat proposes to pioneer a movement towards adoption and promotion of cleaner sources of power as a potential solution to the mounting global energy crisis, in the interest of future generations.

The state is endowed with high solar radiation levels with 300 days of clear Sun. with conducive arid condition and minimal Sun tracking, especially in the barren waste land areas. The state government proposes to encourage solar power generation projects as a means for socio -economic development of these backward regions through livelihood creation for the local population. These areas have the potential to transform into an 'Integrated Solar Generation Hub' for the entire nation. In view of the above, it is necessary to have a comprehensive policy to actively promote solar power, as an additional and alternative source of energy. After careful consideration, therefore the state government is pleased to resolve to introduce the Solar Power Policy.

## **2.4 STATEMENT OF THE PROBLEM**

Earlier in chapter I of the present study eminent economists of pre-classical approach, classical approach, Neo-classical approach, Keynesian and post-Keynesian Approach have highlighted on public expenditure and economic development in developed and developing economies. In their conventional studies, it was observed that there are different opinions in regard to the practicability and desirability of achieving economic growth with the help of the increasing volume of public expenditure. As a matter of fact, public expenditure has grown abnormally in India and abroad; but the study of public expenditure, unfortunately, has not received much attention and suffered from an

alarming neglect. Economists of all camps have laid too much emphasis on the study of public revenue and doctrine of taxation and the study of the behaviours of government expenditure have always been treated with indifference in the early days of development of fiscal science. In other words during pre-Keynesian era when the classical theories were ruling the doctrine of public expenditure was never conceived to be an important part of fiscal administration. Until recently in India, the specialists in the field of public finance were confined to the study of effects of budgeting trends, and the development of normative theories focusing at explaining how the behaviors of revenue and expenditure are determined. But the irony of fate is 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 in the economy. Therefore, there is need of the present study to examine role of public expenditure in economic development of Gujarat state, India

## **2.5 OBJECTIVES OF THE STUDY**

The main objective of the present study is to understand how public expenditure has contributed to economic development of Gujarat state during the period of our study by contributing towards infrastructural development, increase in employment and income, increase in the level of education and also improving in the health of the people (expenditure and investment in Human Resources Development "HRD"). We also want to study that how this public expenditure during the period of our study has contributed to development of agricultural sector, industrial sector and service sector in the state of Gujarat.

## **2.6 HYPOTHESIS OF THE STUDY**

The study aims at examining the role of public expenditure in economic development of Gujarat State, which may have the following important hypotheses:

- (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.

## **2.7 RESEARCH METHODOLOGY**

In this study, we are going to apply the tabular analysis and empirical analysis wherever necessary. Therefore, varieties of sources would be consulted together for relevant statistical information on the real and financial variables in order to establish functional relationship and to test various hypotheses, we shall depend upon well known statistical techniques, namely, Regression and Correlation techniques that, it permits us to established not namely statistically connections, but permits to product the changes in dependent variables. It also allows us to test the statistical significance to ensure F and t-test; the statistical models are namely, linear and non-linear equations, ordinary least square (OLS), statistical criteria, Durbin-Watson (D-W) statistic and coefficient of determination ( $R^2$ ).

## **2.8 SOURCE OF DATA**

The sources of data are exclusively built on secondary survey. The required statistical information (secondary data) would be been collected from various sources, and has been used for analysis purpose, and those are from the following sources:

1. Reserve Bank of India (RBI), Annual Reports.
2. Economic and Financial statistics Review (Reserve Bank of India)
3. Indian Economic Survey (Fiscal and Real Sector), the Ministry of Finance, "Government of India" New Delhi.
4. Gujarat Government, Budget Reports.

And also data collected from other reliable sources.

## **2.9 SCOPE OF THE STUDY**

The present study is confined to the role of public expenditure and economic development of Gujarat state, India, for the study years of 1986-2006.

## **2.10 CHAPTERS' DESIGN**

The chapters' design of the present study contains six chapters as what follows:

### **2.10.1 CHAPTER ONE :**

#### **Introduction to Public Expenditure and Economic Development:**

- 2.10.1.1 The Rationale of Public Expenditure – Classical, Keynesian, and Monetarist Approach.
- 2.10.1.2 Theoretical Foundation of Public Expenditure in economic development
- 2.10.1.3 Development of Government Expenditures in India and Gujarat
- 2.10.1.4 Concluding Remarks

### **2.10.2 CHAPTER TWO:**

#### **Review of Literature and Methodology:**

- 2.10.2.1 Literature Review
- 2.10.2.2 Statement of the Study
- 2.10.2.3 Objectives of the study.
- 2.10.2.4 Hypotheses of the Study
- 2.10.2.5 Research Methodology.
- 2.10.2.6 Scope and limitations of the study
- 2.10.2.7 Chapter-wise of the Study.

### **2.10.3 CHAPTER THREE :-**

#### **Public Expenditure of Gujarat State:**

- 2.10.3.1 Budget of Gujarat State
- 2.10.3.2 Government Revenues.
- 2.10.3.3 Government Expenditures and Overall Deficits.
- 2.10.3.4 Development Expenditures.
- 2.10.3.5 Non-Development Expenditures.

#### **2.10.4                    CHAPTER FOUR:**

##### **Analysis of Public Expenditure and Economic Development of Gujarat State:**

- 2.10.4.1      Public Expenditure and Economic Development
- 2.10.4.2      Financing of Major Development Schemes in  
Agriculture, Industry and Services
- 2.10.4.3      Growth and Trend of Non-Development Expenditure.
- 2.10.4.4      Capital Formation.
- 2.10.4.5      Human Resources Development and Economic  
development of Gujarat State.

#### **2.10.5                    CHAPTER FIVE**

##### **Empirical Economic analysis of public Expenditure in Relation to Economic development of Gujarat State.**

#### **2.10.6                    CHAPTER SIX:**


##### **Findings, Concluding Observations and Policy Recommendations.**

- 2.10.6.1      Findings and Concluding Observations
- 2.10.6.2      Policy Recommendations.

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