



PUBLIC EXPENDITURE IN MIZORAM: GROWTH AND TREND

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ABSTRACT

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Public expenditure has grown both relatively and absolutely in all the states of the Indian Union. The developmental process in any society had then to be conditioned by priorities policy set by the state. Accordingly the level and direction of public expenditure allocations were to be design for their maximum beneficial impact on economic and social sectors in order that income growth and the performance on social indices reinforced each other.

The significance of public expenditure as an instrument of promoting the socio-economic development of a country is well accepted by the development economists in modern times all over the world, particularly in the developing countries which shelters roughly two-thirds of the world's poverty ridden people. In a socialistic and welfare characterized state, governments directly intervene in achieving an efficient allocation of resources, in achieving an equitable distribution of income and finally in maintaining economic stability in the economy. The growing concern over the necessity of improving the future well-being of the people is of paramount importance, and therefore, has impelled the governments of the developing countries including India to overcome the problems of mass poverty, unemployment, social and economic backwardness etc.

KEYWORDS: *Public Expenditure, Capital, Revenue, Development, GSDP*

I. INTRODUCTION

According to World Bank “Public Expenditure is the expenditure of public authority – central, state and local governments” These expenditures is incurred by the government for its own maintenance, the society and the economy as a whole. Public expenditure has grown both relatively and absolutely in all the states of the Indian Union. The main objective of public expenditure policy is sustained and equitable economic growth. Public expenditure has been recognized as an effective tool in boosting economic growth in the short run and has played an important role in physical and human capital formation in the long run (Hicks, 1947). The developmental process in any society had then to be conditioned by priorities policy set by the state. Griffin and Mckinly(1992) argued that the composition of public

expenditure is more important than its volume. Accordingly, the level and direction of public expenditure allocations were to be designed for their maximum beneficial impact on economic and social sectors in order that income growth and the performance on social indices reinforced each other.

Human development is broadly defined as a process of enlarging people’s choices, as well as raising the level of well being. These choices can vary over the time and can be indefinite like the choice to lead a long and healthy life, the choice to acquire knowledge and be educated, and to have access to resources needed for a decent level of living (Kumar 2015). Further, these three choices are the most critical and socially valuable perspectives. Per capita income is to incorporate other aspects of well being not captured by

indicators on the social attainments on education, health and longevity of live and life expectancy and educational attainments are value ends in themselves. Therefore, development and growth has to be woven around people and not people around development (UNDP, 1990). From the above logic, human development has two sides: the formation of human capabilities like improved knowledge, health, skill and the use of acquired capabilities for productive purposes, for active in cultural, social and political affairs (Hag, 1995). Development must, therefore, be more than just the expansion of income and wealth. Several empirical research studies revealed that “steady growth of per capita income is not the only determinant of achieving human development; public spending on social sectors also has a crucial role to play” (Streeten, (1979), Sen (1981), Anand and Ravallion (1993), Chakraborty (2004)).

The significance of public expenditure as an instrument of promoting the socio-economic development of a country is well accepted by the development economists in modern times all over the world, particularly in the developing countries which shelters roughly two-thirds of the world’s poverty ridden people. In a socialistic and welfare characterized state, governments directly intervene by expanding public expenditure in achieving an efficient allocation of resources, in achieving an equitable distribution of income and finally in maintaining economic stability in the economy. The growing concern of public expenditure over the necessity of improving the future well-being of the people is of paramount importance, and therefore, has impelled the governments of the developing countries including India to overcome the problems of mass poverty, unemployment, social and economic backwardness etc

II. LITERATURE REVIEW

A. Growth of Public Expenditure

The classical economists advocated minimum state interference in the economic affairs of a country as they strongly believe in the policy of *laissez faire*. The classical economists developed ambiguous arguments to justify the role of public expenditure. They held the market mechanism supreme and considered it a better method through which various activities in the economy could be guided and allocation of resources could be decided in the best possible way. It was argued that each rational economic unit could decide for itself hoe its economic interests could be maximized. They recommended that the state should restrict its activities to “justice, police and arms” which clearly stated that the duty of the state is to protect the citizens against foreign aggression and internal disorders. Hence, public expenditure was treated as waste, and that the money transferred from the people to the government could be of far greater utility for the people than for the government. Likewise, the burden of the tax should be the least on its tax payer was advocated to be the best one.

However, this ideology exploded under the impact of the Great Depression of the 1930s and as the Industrial Revolution progressed, the scope of the state activity as well as intervention widened beyond what was advocated by the classical economists. The newly ideology came in the form of different role assumed by the state, which they called ‘Welfare State’. The welfare state aimed at providing protection to domestic industries, labour welfare, social security measures, reduction of inequalities in income and wealth and so on. As all countries badly experienced the limitations of the market mechanism during the Great Depression and also cannot bring high employment, price level stability and socially desirable rate of economic growth, the need for government intervention was increasingly felt by the country. Keynes came out with his great thesis on pumping of investment by the state to combat widespread unemployment and bring economic stability. Ever since, there was an increasing volume of government intervention in the economic activities, public expenditure has been growing in its structure and size, particularly, to meet the objective of price stability, full employment, equity and economic growth. The growth of public expenditure has added to the fiscal responsibilities of the government of raising additional revenue from various sources to meet the mounting pressure of public expenditure.

B. Public Expenditure and Economic growth

By achieving its potential growth, public expenditure may act as a deterrent to an economy. Some expenditure are productive while some others are not and still others inimical to growth. The distinction has been made by practitioners between ‘productive’ and ‘unproductive’ public expenditure, and show how a country can improve upon economic performance by changing the mix between the two (Devarajan, S., Swaroop, V., & Zou, H. 1996).

The measurement of economic growth as a function of various public expenditures exhibited that there is a positive relationship between aggregate public investment and economic growth over the period. There exist a long-run equilibrium relationship between public expenditure and economic growth (Srinivasan, 2013). Also there is a positive impact of total public expenditure to GDP and vice versa. In other words, an improvement in the public expenditure will cause economic growth to increase. However, the disaggregated effects of public expenditure exert different impacts on growth both in terms of signs and statistical significance. Overall government size has a negative influence on per capita Gross domestic Product growth whereas increasing public expenditure on education, health and economic infrastructure have significant positive growth effects (Shivarajani, 2010). With the merit goods category showing a higher effect than the other, allocation towards these would be more beneficial in view of economic growth.

Earlier researchers have dealt with the issues of large number of economic aspects which determined government expenditure and human development, as per cited review above. We could find only a few studies concerning for

developing and underdeveloped countries because most of the studies were for developed countries. It is also observed that most of the studies have been conducted on national level and less number of studies is on state level which can give a clear picture of the relationship between public expenditure and human development at the state specific level. The central issue addressed in this study is thus, the relationship between public expenditure at both aggregated and disaggregated levels and economic growth. However, in view of the infeasibility of the existing models to the heterogeneous expenditure and growth structure in the state, we attempt to develop an alternative model of analyzing the behavioural pattern of public expenditure and human development in Mizoram.

III MATERIALS AND METHODS

The study is solely relied on secondary data collected from various volumes of Budget documents of the State Government, viz. Annual Financial Statement, Budget Speech, Demand for Grants, etc. for a period of 15 years starting from 2005-2006. All these documents is obtained from the Finance Department, Government of Mizoram and the State's

Directorate of Economics & Statistics. In addition, the required data on the state income, viz. NSDP, per capita GSDP, etc. is collected from Directorate of Economics & Statistics, publications of Planning & Programme Implementation, Government of Mizoram and Ministry of Statistics & Programme Implementation, Government of India. For analysis correlation and regression were used.

IV. ANALYSIS AND RESULTS

A. Trend and Pattern of public expenditure

The expenditure of Mizoram governments in recent years has been steadily increased due to both an intensive and an extensive expansion of government functions. Size and pattern of public expenditure play a virtual role in the growth process and reduce economic inequalities. Classification of public expenditure is important to explain the interrelationship between government sector and the rest of the economy and revealed the relative size of different governmental activities in the economy (Govind Battacharya, 2013). Public expenditure make governments forced to do many activities such as redistributive, re-allocation, commercial, and stabilizing activities (Oscar Gelderblom, 2011).

Table 1: Total expenditure of Government of Mizoram (2005-06 to 2019-20)

Year	Revenue Expenditure		Capital Expenditure		Total Expenditure	
	(Rs Crore)	(Percent)	(Rs Crore)	(Percent)	(Rs Crore)	(Percent)
2005-06	1588.02	77.87	451.37	22.13	2039.39	100
2006-07	1717.29	78.64	466.44	21.36	2183.73	100
2007-08	1908.63	77.81	544.24	22.19	2452.87	100
2008-09	2313.79	80	578.27	20	2892.06	100
2009-10	2702.7	82.51	572.81	17.49	3275.51	100
2010-11	3255.85	81.2	753.61	18.79	4009.46	100
2011-12	3723.85	85.41	636.3	14.59	4360.15	100
2012-13	4518.91	85.79	748.37	14.21	5267.3	100
2013-14	4609.58	88.5	599.04	11.5	5208.62	100
2014-15	5652.44	85.9	927.51	14.1	6579.94	100
2015-16	5570.86	88.68	710.94	11.32	6281.83	100
2016-17	6230.34	87.24	911.41	12.76	7141.75	100
2017-18	6880.77	77.51	1996.35	22.49	8877.12	100
2018-19	7505.59	80.07	1868.47	19.93	9374.06	100
2019-20	9453.96	87.32	1372.67	12.68	10826.63	100

Source: Computed from Accounts at a Glance, Government of Mizoram, 2006-07 to 2020-21 & Annual Financial Statement (Budget), Government of Mizoram, 2007-08 to 2022-23

B. Revenue vs Capital Expenditure

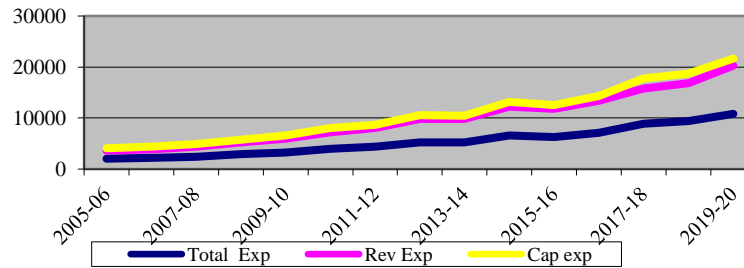
Table 1 presents the amount of revenue expenditure, capital expenditure and total expenditure and the percentage share of revenue expenditure and capital expenditure in the total budget expenditure. The total expenditure in 2005-06 was Rs 2039.39 crore, which was increased to Rs 2702.7 crore in 2009-10, further increased to Rs 5652.44 crore in 2014-15

and went up to Rs 9640.77 crore in 2020-21, registering that public expenditure has been increased in absolute terms more than three hundred and seventy three per cent, and an average annual rate of increase of 10.71 per cent per annum during the reference period. Table 1 also revealed that the trend of revenue expenditure which were Rs 1588 crores in the year

2005-06, rose to Rs 9453.96 crores in the year 2019-20 thus recording an increase percentage of 436.21 per cent. The share of revenue expenditure is increasing whereas the share of capital expenditure is continuously decreasing. This increase of revenue expenditures of the State government was caused by the higher additional expenditures under general

services, social and community services which have increased significantly, with a view to achieving poverty alleviation with special emphasis on employment generation and provision of minimum basic needs like health care, education, drinking water, rural developments

Fig. 1: Trend of Total expenditure of Mizoram



Source: Annual financial Statement of Mizoram 2005-06 to 2020-21

C. Composition of developmental and non-developmental expenditure.

Developmental expenditure incurred on education, medical care, health and family welfare, labour and employment, agriculture, cooperation, transport and communication, and other miscellaneous services has shown in conjunction with economic plans (Brown and Howard, 2002). Non-developmental expenditure, on the other hand is those items of expenditure of the government, which does not directly help in economic development of the state. Revenue Expenditure and Capital Expenditure of the Government is classified into developmental and non-developmental depending on the nature of government expenditures. It may be the most significant classification of expenditure in terms of quality of government expenditure.

As stated above, Developmental expenditure is that which contributes directly or indirectly to the production levels and productive capacity of the state. Developmental expenditures are grouped under two categories i.e., social services and economic services. Social services are concerned with the provision of basic amenities of life to the community including education, medical and public health and other social services. ‘Other

social services’ includes housing, labour welfare, employment promotion programmes, expenditures as the lump-sum provision made in the budget for the special welfare schemes, primary education, rural water supply and expenditure on nutrition programmes for children. Economic services include all expenditure concerning to promote directly or indirectly productive economic activity within the economy. Expenditure on economic services can play an important part in the promotion of the development of the state. Activity like agriculture and allied activities, rural development, irrigation and flood control, industry, transport and communication and other economic services are included in this category. Industry covers both large and small-scale industries, power development, exploitation of mineral resources, trade and export promotion. Other economic services include the state’s share in small savings.

Expenditure on general services like administration, interest payment and debt servicing, pensions and fiscal services are non-developmental in character. Developmental expenditure is both investment and consumption expenditure, but practically all non-developmental expenditure is in the nature of consumption expenditure.

Table 2 : Developmental and non-Developmental Expenditure

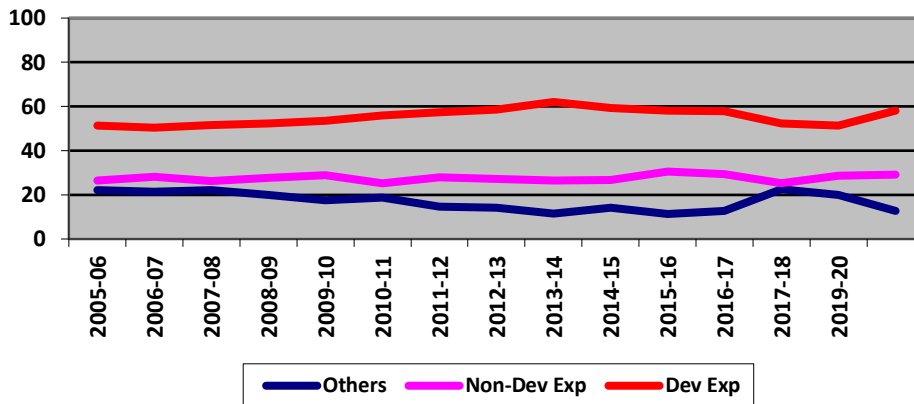
Year	Developmental Expenditure (Rs Crore)	Percentage of Developmental Expenditure to Total Expenditure	Non-developmental Expenditure (Rs Crore)	Percentage of Non developmental Expenditure to Total Expenditure	Others
2005-06	1046.37	51.31	541.65	26.56	22.13
2006-07	1100.38	50.39	616.91	28.25	21.36
2007-08	1262.74	51.48	645.89	26.33	22.19
2008-09	1510.04	52.21	803.75	27.79	20.00
2009-10	1754.95	53.58	947.75	28.93	17.49
2010-11	2245.03	55.99	1010.82	25.21	18.80
2011-12	2503.80	57.42	1220.05	27.98	14.60
2012-13	3088.36	58.63	1430.55	27.16	14.21
2013-14	3230.36	62.02	1379.22	26.48	11.50
2014-15	3902.79	59.31	1749.65	26.59	14.10
2015-16	3653.85	58.16	1917.01	30.52	11.32
2016-17	4133.29	57.87	2097.05	29.36	12.77
2017-18	4641.63	52.29	2239.14	25.22	22.49
2018-19	4810.37	51.31	2695.22	28.75	19.94
2019-20	6292.54	58.12	3161.42	29.20	12.68

Source: Computed from Accounts at a Glance, Government of Mizoram, 2006-07 to 2020-21 & Annual Financial Statement (Budget), Government of Mizoram, 2007-08 to 2022-23

In 2005-06 total expenditure is Rs 2039.39 crore; out of which 51.31 per cent is used for developmental purposes and 26.56 per cent for non-developmental activities. The average expenditure of developmental activities during 2005-06 is 55.34 per cent, while 27.62 per cent of total expenditure

has gone to the non-developmental activities. During 2005-06, the percentage share of developmental expenditure have been increased by 13.27 per cent and non-developmental expenditure have been increased by 9.94 per cent.

Fig. 2: Composition of developmental and non-developmental expenditure



Source : Computed from Table 2

D. Sector-Wise Expenditure

The objective of public expenditure differ time to time. However, a general pattern of the objectives of public expenditure has been formulated in the state. These general objectives take the form of provision of a minimum of certain services for the social, economic and physical security of the people, promotion of full utilization of human and other

resources and the stabilization of the economy. An attempt to implement these objectives in the state of Mizoram has led to the growth in public expenditure. Public wants have been expanding, social welfare emphasis has been rising, population has been rising, price is rising and the direction of public expenditure towards economic development have all

contributed to the stupendous growth of public expenditure in the state of Mizoram

Table 5 : Sector-wise Expenditure

Year	General Services	Social Service	Economic Services	Percentage of Col.2 to TRE	Percentage of Col.3 to TRE	Percentage of Col.4 to TRE
1	2	3	4	5	6	7
2005-06	555.11	637.54	846.73	27.22	31.26	41.52
2006-07	641.35	714.93	827.45	29.37	32.74	37.89
2007-08	659.38	802.72	990.76	26.88	32.73	40.39
2008-09	523.53	991.11	1077.42	28.48	34.27	37.25
2009-10	973.75	1255.89	1045.94	29.73	38.34	31.93
2010-11	1034.18	1363.29	1611.99	25.79	34.00	40.21
2011-12	1237.08	1459.93	1663.11	28.37	33.48	38.15
2012-13	1473.3	1874.63	1919.46	27.97	35.59	36.44
2013-14	1436.94	2031.4	1740.64	27.59	39.00	33.41
2014-15	1823.85	2474.93	2281.16	27.72	37.61	34.67
2015-16	1951.2	2431.9	1898.7	31.06	38.71	30.23
2016-17	2146.23	2614.14	2381.36	30.05	36.60	33.35
2017-18	2359.48	3220.22	3297.38	26.58	36.28	37.14
2018-19	2794.53	3696.64	2882.87	29.81	39.43	30.76
2019-20	3256.64	3994.1	3575.87	30.08	36.89	33.03

Source: Accounts at a Glance, Government of Mizoram, 2006-07 to 2020-21 & Annual Financial Statement (Budget), Government of Mizoram, 2007-08 to 2022-23

The analysis indicates that the increasing percentage of public expenditures on social services is highest from 2013-14 followed by expenditure on economics services and general services. This, in fact, reveals that the the government is spending a huge amount on the social services to improve education and public health so as to improve the productivity of the people of the state. Government of Mizoram is also spending substantial amount on the general services of the state which included organs of state, fiscal services, various

administrative services, pension and miscellaneous general services of the state.

The contribution of public expenditure to GDP is increasing over time. the ratio of public expenditure to Net State Domestic Product (NSDP) has been extremely high during the study period. Public expenditure as a percentage of Net State Domestic Product peaked at 81.02 percent in 2012-13 and is lowest at 45.77 percent in 2020-21

Table 7 : Expenditure as a percentage of NSDP

Year	Revenue Expenditure	Capital expenditure	Total expenditure	Annual Trend Value
2005-06	59.61	16.94	76.55	2589.14
2006-07	58.33	15.84	74.17	2718.83
2007-08	58.75	16.76	75.52	2859.65
2008-09	59.99	14.99	74.96	3142.19
2009-10	63.28	13.41	76.69	3333.50
2010-11	63.90	14.79	78.69	3715.17
2011-12	64.59	11.04	75.63	4025.51
2012-13	69.51	11.51	81.02	4366.43
2013-14	59.42	7.72	67.14	4948.67
2014-15	54.86	9.00	63.86	6127.97
2015-16	48.85	6.23	55.08	6637.95
2016-17	49.02	7.17	56.19	7242.42
2017-18	44.33	12.86	57.19	8544.93
2018-19	45.57	11.34	56.91	8984.04
2019-20	50.28	7.30	57.58	10063.75

Source: Computed from Accounts at a Glance, Government of Mizoram, 2006-07 to 2020-21 & Annual Financial Statement (Budget), Government of Mizoram, 2007-08 to 2022-23.

Growth and trend of public expenditure on NSDP, Revenue Expenditure and Capital Expenditure using regression equation and correlation were work out and the result is shown in Table 8.

Public expenditure and NSDP				
<i>R</i>	<i>R square</i>	<i>Adjusted R Square</i>	<i>Std.Error</i>	<i>Coefficients</i>
0.979	0.958	0.954	612.0851	0.4632
Public Expenditure and Revenue Expenditure				
0.978	0.956	0.953	537.478	0.4011
Public Expenditure and Capital expenditure				
0.794	0.630	0.604	298.848	0.0621

V. CONCLUSION

The public expenditure of the State Government of Mizoram has grown at a faster rate of 10.71 per cent annually following the growth of the net state domestic product. This growth of public expenditure with the growth of net state domestic product followed the hypothesis that the level of public expenditure responds to the increase in the level of net state domestic product.

The stupendous increase in public expenditure in Mizoram is the result of the efforts undertaken for stabilization of the economy, effective utilization of the available resources with respect to human and natural resources. The rapid growth of population and its consequences of urbanization, the increase in public wants, expenditure towards economic development, rising prices, the rise of a modern state with the objectives of the attainment of social welfare are all the factors which have contributed towards the significant growth of public expenditure in the state of Mizoram. It is believed that the trend in revenue expenditure will continue to increase in the near future and so, certain remedial measures to curtail expenditure or certain measures for the augmentation of tax revenue must be adopted because the State government will continue to play an important role in the process of economic development through certain various developmental and non-developmental plan expenditures.

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