



IMPACT OF PUBLIC EXPENDITURE ON ECONOMIC DEVELOPMENT IN TAMILNADU

R. PREMALATHA, Ph.D.Scholar, Department of Economics, VELs Institute of Science, Technology and Advanced Studies, Chennai-117.

Dr.S.THANGAMAYAN, Assistant Professor, Department of Economics, VELs Institute of Science, Technology and Advanced Studies, Chennai - 117.

ABSTRACT- Public expenditure plays a crucial role in the process of economic development of developed and more particularly, developing countries like India, Sri Lanka and Pakistan. Public expenditure facilitates economic development by expanding economic infrastructure such as roads, power, food, shelter, health, education, employment opportunity, transport and other sectoral development. Expenditure also leads to growth and development, efficiency, equity and stability. On the efficiency front, public expenditure plays a vital role in the allocation of resources by providing various public goods and merit goods. Among the five demographic factors considered, only four proved statistically significant leading to the conclusion that gender and technology competence can be a predictor of four wheeler brand. Age, income and education cannot predict with any statistical significance the four wheeler brand a consumer is likely to purchase. Realistically the results here are within reason. While a silver bullet would have been to find more demographic variables related to particular brands to pin point the right audience and laser focus on them with the right message, the results indicate no such silver bullet exists.

KEY WORDS: Public Expenditure, Impact, Economic Development.

I. INTRODUCTION

Public expenditure plays a crucial role in the process of economic development of developed and more particularly, developing countries like India, Sri Lanka and Pakistan. Public expenditure facilitates economic development by expanding economic infrastructure such as roads, power, food, shelter, health, education, employment opportunity, transport and other sectoral development. Further, it raises the standard of living of the people and promotes social, economic and human development.

Public expenditure also leads to growth and development, efficiency, equity and stability. On the efficiency front, public expenditure plays a vital role in the allocation of resources by providing various public goods and merit goods. It addresses externalities by regulating markets to engage in competition. Public spending could also be designed to influence income redistribution. Developing countries like India are known for sharp inequalities and backwardness characterized by illiteracy, poverty and poor health care. Public expenditure programmes could effectively address such basic human problems in a society. Moreover, public expenditure could also address macroeconomic concerns of growth and stability. The link between public expenditure and economic development has been well established both by the theoretical and empirical literature. In recent years, however, debates have emerged about the role of public expenditure in a mixed economy where the appropriate compositions of public expenditure into revenue and capital components have become controversial. Similarly, the trade-off between efficiency and equity continues to be controversial in designing appropriate expenditure policies and programmes. Two theoretical approaches, namely, (a) welfare approach and (b) social justice approach are emphasized by the scholars of public finance. The welfare approach focuses on efficient allocation of society's resources to ensure economic growth and development. The social justice approach on the other and argues that growth of income is just a 'means' and the 'end' is human development. Hence, public expenditure programmes should be directly aimed at promoting human development. The consequent trade-off between equity-efficiency and the choice of policy mix for appropriate public expenditure composition is relatively more controversial in an

environment of economic backwardness which is characterized by high levels of poverty, inequalities and illiteracy.

Public Expenditure and Economic Development

The size of public expenditure in an economy is measured by the indicator viz., the ratio of public expenditure to the Gross Domestic Product (GDP). The growth of public sector has been given an important role in the Indian planning process, especially in the major states of India. As the size of the public sector has tended to expand, the public expenditure as a proportion of gross domestic product has also tended to increase. The growth of public expenditure in the United Kingdom for the period 1890-1955 by Wiseman and Peacock (1961) revealed that the public expenditure did not increase in a smooth and continuous manner, but in jerks or step like fashion. They suggested the growth of public expenditure by way of 'displacement effect,' which signified that the public expenditure grew over time, not at a constant rate, but roughly stepwise, on an ascending spiral. At that time, some social or other disturbances took place, creating a need for increased public expenditure which the existing public revenue could not meet. While earlier, due to an insufficient pressure for public expenditure, the revenue constraint was dominating and restraining an expansion in the public expenditure.

STATEMENT OF PROBLEM

Capital expenditure is considered to be more productive than that of current expenditure. In fact, capital expenditure is directly linked with economic growth when compared to current expenditure has examined the relationship between public expenditure and economic development in the developed and developing countries on a global level. These studies have found different results based on the specific social, political, geographical and economic conditions of different countries. The percentage share of current expenditure to the GDP in developing countries was 17 percent during 1972-1999, but in terms of capital expenditure it was 3 percent during the same period (Devarajan, 1996). Productive expenditure on education, research and development, job training and infrastructural sectors cause increases in private investment, while non-productive expenditure is not directly connected with economic growth and private investment (Aschauer, 1990). In contrast, Ghosh and Gregoriou (2008) state that the capital expenditure on education, health and current expenditure on operation and maintenance is seen in negative relationship with economic development of a country.

OBJECTIVES OF THE STUDY

1. To explain the association between public expenditure and economic development in India
2. To find out the composition of public expenditure in the major States of India
3. To arrive at relevant policy implications.

II. METHODOLOGY

The objectives set forth in this study had necessitated the researcher to look for the data. The collected information was very vast and as such, all of them were not required for the study. The necessary data were carefully selected, tabulated and formulated in meticulous way. Finally, the collected data were mined further and consolidated suitably for the purposes of analysis.

SOURCES OF DATA

The data for the study is collected from the Reserve Bank of India, State Budget Documents, various Policy Notes, Union Budget Documents, Economic Surveys, Ministry of Agriculture, National and State Human Development Reports, Planning Commission Reports, Ministry of Education and Human Resources Development Reports, and Census of India. The data relating to Gross Domestic Product have been collected from the Central Statistical Organization.

TOOLS OF ANALYSIS

This study is based on the 5-year moving average percentage method. In order to calculate the percentage share of the public expenditure to the GSDP, the public expenditure such as total expenditure, revenue, capital expenditure and sectoral expenditure of major states of India have been considered.

ANALYSIS OF DATA

Over the last few years the face of the Indian automobile industry has undergone a sea change. The growth of the industry has surpassed all previous records. The development of industry has been attributed to a couple

of factors. One of these was the liberalization of the economy of the country in the early 1990s and the rise in disposable income and standard of living. Liberalization of the economy meant a decrease in import tariffs, equity regulations, liberalization in banking norms, relaxation of the foreign exchange and so many other things which facilitates the industrial environment of the country to grow up to the level of global standard. These positive steps led to globally renowned auto brands to invest in the Indian market. Some of the leading automobile manufacturers of world collaborated with Indian brands and invested huge capital in the country. Here it is worth mentioning that foreign investors invest in a country only to get good return on their investments. It is not a charity. They also expect safe environment for their investments. On the contrary, developing countries have a desire to use FDI not only to cover their shortage of capital for basic infrastructural development but also to utilize the advance technologies of the developed countries. Hence, the objectives the foreign investors and the governments of host nations are contradictory. At this junction there is a need to adopt balanced approach from both of the sides in mutual interest. As developing countries are in much need of foreign capital for the maximum exploitation of resources available in the country, they have to create foreign investors friendly environment in their nations first.

Table-1

FDI PERFORMANCE INDEX RANKING OF SELECTED COUNTRIES

Name of the country	FDI Potential Index Ranking	FDI Performance Index Ranking
South Africa	74	128
Russia	20	60
Brazil	70	69
China	32	86
India	84	97

Source: Global Investment Trends 2017-18; UNCTAD; www.unctad.org.

The data on profits of Auto mobile Industry in Tamil nadu, in 1990-91 was Rs.120 lakh. It is touched highest value of Rs.4488 lakh in 1998-99, then it declined value of Rs.3981 lakh in 1989-90. The lowest growth rate was Rs.-27.15 lakh in 1993-94, Rs.11.29 lakh in 1999-2000, except two year, all other years growth rate is positive. The average profits value of this period was Rs.2138 per year. The profits increased by 33.17 times. During the second sub-period 2000-01 to 2009-10, in 2000-01 was Rs.5894 lakh, and it is touched the highest value of Rs.40641 lakh in 2005-06, then it declined was Rs.5747 lakh in 2009-10. The minimum growth rate was Rs.-35.58 lakh in 2003-04, Rs.-3.18 lakh in 2006-07 and -69.66 lakh in 2008-09, except three year, all other year growth rate is positive. The average profits value of this period is 19458.88 per year. The profits increased by 0.97 times.

During the 2010-11 to 2017-18 the third sub-period was Rs.11185 lakh in 2010-11, it is increased with some fluctuation was Rs.29235 lakh in 2015-16, then it declined in this period was Rs.4311 in 2017-18. The annual growth rate is positive except four years. The average profits value of Rs.16507.14 per year. The profits increased by 0.39 times in this period

TABLE - 3.11

GROWTH OF PROFITS OF AUTO MOBILE INDUSTRY OF TAMIL NADU DURING 1990-91 to 2017-18

Year	Profits	Index	Annual Growth Rate
1990-91	120	100	-
1991-92	271	225.83	125.83
1992-93	302	251.66	11.43
1993-94	220	183.33	-27.15
1994-95	414	345	88.18
1995-96	415	345.83	0.24
1996-97	1597	1330.83	284.81
1997-98	3158	2631.66	97.74
1998-99	4488	3740	42.11
1999-2000	3981	3317.5	-11.29
2000-01	5894	100	-
2001-02	10684	181.26	81.26
2002-03	17738	300.95	66.02

2003-04	23682	401.79	33.50
2004-05	15254	258.80	-35.58
2005-06	40641	689.53	166.42
2006-07	39347	667.57	-3.18
2007-08	12329	209.17	-68.66
2008-09	3814	64.70	-69.06
2009-10	5747	97.50	50.68
2010-11	11185	100	-
2011-12	10267	91.79	-8.20
2012-13	10818	96.71	5.36
2013-14	17143	153.26	58.46
2014-15	10853	97.03	-36.69
2015-16	29235	261.37	169.37
2016-17	21672	193.75	-25.86
2017-18	4377	39.13	-79.80

Source: Annual survey of Industries, India

- The brand of four wheeler purchased is independent of the age of the four wheeler owner. Insufficient evidence existed to conclude that the brand of four wheeler purchased by a consumer is related to the consumer's age. An early expectation in this study was that a relationship may have existed with at least few of the brands, attracting a younger crowd.
- The brand of four wheeler purchased is independent of the education level of the four wheeler owner. Using the Chi-Square test of Independence, it can be concluded from the study that insufficient evidence existed to conclude that the brand of four wheeler purchased by a consumer is related to the educational qualification
- The brand of four wheeler purchased is dependent on the gender of the four wheeler owner. Sufficient evidence existed to conclude that the brand of four wheeler purchased by a consumer is related to the consumer's gender.
- The brand of four wheeler purchased is dependent of the technical competence of the four wheeler owner. Sufficient evidence existed to conclude that the brand of four wheeler purchased by a consumer is related to the consumer's level of technical competence.
- Among the five demographic factors considered, only four proved statistically significant leading to the conclusion that gender and technology competence can be a predictor of four wheeler brand. Age, income and education cannot predict with any statistical significance the four wheeler brand a consumer is likely to purchase. Realistically the results here are within reason. While a silver bullet would have been to find more demographic variables related to particular brands to pin point the right audience and laser focus on them with the right message, the results indicate no such silver bullet exists.

III. CONCLUSION

Indian economy was defying gravity when the global economy was falling and is racing ahead as the global economy recovers and this augurs well for the Indian four-wheeler industry. In the previous decade when Indian economy used to grow in the region of 5-6 per cent there used to be a thumb-rule of the industry growing at twice the GDP rate. There are four interesting inter-related trends that are playing out demographically. On the one hand, there is increasing migration to urban areas and on the other hand, rural development has been accelerating. Families are becoming nuclear and increased distances between family units, both of which stimulate the four-wheeler demand.

REFERENCES

1. Eckermann, Erik (2001). World History of the Automobile. SAE Press. p. 14. ISBN 9780768008005.
2. Georgano, G.N. (1985). Cars: Early and Vintage, 1886-1930. London: Grange-Universal. ISBN 1-59084-491-2.

3. Piplai, Tapas (2001-07-28). "Automobile Industry: Shifting Strategic Focus". *Economic and Political Weekly* (Mumbai, India: Sameeksha Trust) 36 (30): 2892– 2897.
4. Kamala, T.N. & Doreswamy, A.G. (2007). *Strategies for Enhancing Competitiveness of Indian Auto Component Industries*. Indian Institute of Management Kozhikode.
5. "Automobile Industry: Unconvincing Explanations". *Economic and Political Weekly* (Mumbai, India: Sameeksha Trust) XX (16): 669. 1985-04-20.
6. Gupta, Sadanand (2012), *Automobile Industry in India: A Cluster Approach*, Ruby Press & Co., ISBN 978-81-922182-6-7
7. Investment Information and Credit Rating Agency of India Limited (ICRA), 2012,'Automotive Dealership Industry-Still in Waiting Period"
8. Reichheld, F. F. (1993). Loyalty Based Management, *Harvard Business Review*, March-April, 64-73.
9. Fornell, Claes. 1992. "A National Customer Satisfaction Barometer: The Swedish Experience." *Journal of Marketing* 56, no. 1: 6-21.
10. Oliver, Richard L. 1980. "A Cognitive Model of the Antecedents and Consequences of Satisfaction Decisions." *Journal of Marketing Research* 17 (September): 460-469.
11. Nitin Joshi, D. P. Mishra, *Environment Friendly Car: A study of Consumer Awareness with special reference to Maharashtra*||, *Information Management and Business Review* Vol. 2, No. 2, February 2011, pp. 92-98.
12. P. Sathyapriya, R. P. Suganesh, *Factors Influencing Brand Preferences of Passenger Cars Existing Car Owners*||, *International Journal of Marketing and Management Research*, volume 2, issue 7, July 2011, pp.61-66.