

## **An Analysis of Revenue and Capital Expenditure of Government of Maharashtra**

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### **Abstract**

*Revenue expenditure or the current expenditure is the day to day expenditure of the state and in some areas it is compulsory or committed expenditure. At the same time this type of expenditure is not totally useful for enhancing the capital assets in the economy. While the capital expenditure is useful in creating the capital assets or enhancing the productive capacity of the economy. Though, revenue expenditure is less useful in creation of capital assets yet it is necessary. But all efforts should be in the direction of reducing revenue expenditure and increasing the capital expenditure. From this point of view it is essential to study the pattern of both these variants of expenditure. The objective of the paper is to study the pattern of revenue and capital expenditure of government of Maharashtra, to investigate impact of net state domestic product and per capita income on revenue and capital expenditure and to study growth trend in revenue and capital expenditure over a period of thirty years from 1975-76 to 2004-05. The secondary data is collected through RBI and State government publications. The Wagner's law of increasing state activity in revenue and capital expenditure is tested. The result refutes the presence of Wagner's law in capital expenditure but accept it in revenue expenditure of government of Maharashtra.*

*Key Words: - Revenue expenditure, Capital expenditure, Wagner's Law, Growth rate, Per capita income, Net State Domestic Product.*

**1. Introduction:** - Maharashtra is a leading state in Indian federation as far as efforts of development are concerned. Maharashtra state is considered to be a disciplined state in financial management of the resources. In the classification of public expenditure broadly we use plan and non-plan expenditure, capital and revenue expenditure and developmental and non-developmental expenditure. Out of this in the present paper we can study the pattern of capital and revenue expenditure of the government of Maharashtra. Revenue expenditure or the current expenditure is the day to day expenditure of the state and in some areas it is compulsory or committed expenditure. At the same time this type of expenditure is not totally useful for enhancing the capital assets in the economy. While the capital expenditure is useful in creating the capital assets or enhancing the productive capacity of the economy. Though, revenue expenditure is less useful in creation of capital assets yet it is necessary. But all efforts should be in the direction of reducing revenue expenditure and increasing the capital expenditure. From this point of view it is essential to study the pattern of both these variants of expenditure.

**2. Objectives of study:** - Objectives of the study are;

- I. To study the growth of revenue expenditure of government of Maharashtra for the period from 1975 to 2005.
- II. To study the growth of capital expenditure of government of Maharashtra for the period from 1975 to 2005.

III. To study the growth of per capita revenue expenditure of government of Maharashtra for the period from 1975 to 2005.

IV. To study the growth of per capita capital expenditure of government of Maharashtra for the period from 1975 to 2005.

**3. Hypothesis of the Study:** - Hypothesis of the study are as follows;

I. Growth rate of revenue and capital expenditures are more than the growth rate of NSDP of the state.

II. Growth rate of per capita revenue and per capita capital expenditures are more than the growth rate of PCI of the state.

**4. Scope of Study:** - The study is restricted to the revenue and capital expenditure of government of Maharashtra only. No consideration of expenditure of central government. At the same time, there is no consideration of private expenditures or the expenditures of public sector undertakings. The study will take into account the period from 1975 to 2005.

**5. Data Collection and Methodology of study:** - Data for study collected through secondary sources only which includes budget documents of the state of Maharashtra. Data also collected from Reserve Bank of India bulletin and state finances: a study of the budgets of the state governments. Economic surveys of Maharashtra were also helpful in providing data on NSDP and Per capita income of the state.

**6. Review of literature:** - Empirical study of the state expenditure policy and its impact on the other variables, relationship with national income and other variables was studied by the German economists Adolph Wagner. This law of the Wagner is explanatory rather than prescriptive in character. According to Wiseman and Peacock, "Its aim is to establish generalizations about government expenditure, not from postulates about the logic of choice, but rather by direct inference from historical evidence." Adolph has based his law of increasing state activities on historical facts. Adolph Wagner arguing that government expenditure must increase at an even faster rate than output. According to Wagner, income elasticity of the public expenditure is greater than unity. It means that rate of increase of government expenditure is greater than the rate of increase of the economy. Arthur Mann tries to test this law but has got contradictory results. Here we will use following models for testing Wagner's law.

**7. Analysis of Expenditure:** - Expenditure of the government of Maharashtra is divided in revenue and capital expenditure;

**7.1- Revenue expenditure:** - Revenue expenditure is day to day expenditure or current expenditure of the government. Total government expenditure is classified into revenue and capital expenditure. Firstly, we can study revenue expenditure then turn to capital expenditure.

**7.1.1- Absolute revenue expenditure:** - Table no.3 from statistical appendix gives data on revenue expenditure. Revenue or current expenditure of the government of Maharashtra in 1975-76 was Rs91981 lakhs, this increases to Rs 875367 lakhs in 1990-91 and in 2004-05 it climbs to Rs5104665 lakhs. This is showing continuous increase in revenue expenditure.

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The table no.3 shows per capita revenue expenditure over the period of thirty years. Per capita revenue expenditure in 1975-76 stands at Rs166, it becomes Rs1120 in 1990-91 and further it increases to Rs4977 in 2004-05.

**7.1.2- Growth rate and share of revenue expenditure:** - Growth rate of revenue expenditure is given in table no.3, while share of revenue expenditure is given in table no.1

Table no. 3 gives annual growth rate of revenue compare to previous year. In 1975-76 growth in revenue expenditure is 11.9%, which increases to 15.06% in 1990-91 and further it increases to 19.6% in the year 2004-05 showing fluctuations in the allocation of funds on this account. Highest growth in revenue expenditure is recorded in 2000-01 of 26.61% and lowest growth is recorded in the very next year of 2.35% in 2001-02. As we can not give every years ups and down for over thirty years so it is feasible to take average of five years.

Combined average of five years for revenue expenditure is taken which is shown in table no.1. In 1980-81 combined average growth is 15.9%, in 1990-91 it is 14.3%, and in 2004-05 it is 11.9%. This indicates decreasing allocation of funds over the period under consideration. A quick glance at table no.1 reveals the fact that average growth in revenue expenditure is greater than average growth in total expenditure in almost all the years considered except last year of 2004-05. In 1995-96 revenue expenditure is slightly less than growth in total expenditure. This indicates significance of revenue expenditure in total expenditure.

Comparison of average growth of revenue expenditure with growth of NSDP is also given in table no.1, except two years of 1990-91 and 1995-96 all the years are showing more growth in revenue expenditure than growth in NSDP of the state following Wagnerian hypothesis.

Revenue expenditure to total expenditure in 1975-76 stands at 67%, in 1990-91 it mounts up to 81% but then in 2004-05 it slightly declined to become 72%. Average of five years is a better measure which is given in table no.1. According to this, in 1980-81 proportion of revenue expenditure to total expenditure is 69.48% which climbs up to 80.04% in 1990-91 and further increases to high of 83.31% in 2000-01 and slightly declined to 83.13% in 2004-05. This is showing increasing allocation of expenditure for revenue account. This is a cause of concern for the state government that current expenditure is very high compare to capital expenditure. Revenue expenditure, though is not completely wasteful, but can not be helpful in increasing capital formation in the state. On the other hand this type of expenditure fuels inflation further deteriorating the conditions of poor sections of the society.

Revenue expenditure to NSDP in 1975-76 is 12% which increases to 15% in 1990-91 but declined to 13% in 2004-05. Proportion shows zigzag trend in revenue expenditure. Average measure shows that proportion of revenue expenditure to NSDP is 12.55% in 1980-81 which increase to 16.16% in 1990-91 and reduced down to 13.59% in 2004-05.

In 1976-77 the growth in per capita revenue expenditure is 9.5%, in 1990-91 it is 8.1% and in 2004-05 it becomes 17.5%. Average of five years in per capita revenue expenditure in 1980-81 is 13.25%. In 2004-05 it is 10.1%. A quick glance at table no.1 gives the same results in per capita revenue expenditure and per capita income of the state that we have got for growth in revenue expenditure and growth in NSDP.

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For this comparison we have all the years are showing greater increase in per capita revenue expenditure than per capita income in all the years further confirming Wagnerian relationship in revenue expenditure.

**Table No.1 – Comparison of Revenue expenditure and Per capita revenue expenditure**

Year	Average growth R E	Average growth TE	Average growth NSDP	Average RE/NSDP	Average RE/TE	Average of PCRE	Average of PCI
1980-81	15.96	14.12	12.59	12.55	69.482	13.25	10.52
1985-86	18.59	17.03	10.54	15.34	75.145	16.11	8.638
1990-91	14.37	13.54	14.46	16.16	80.049	11.61	12.34
1995-96	14.43	14.8	16.14	13.43	79.448	12.28	14.53
2000-01	17.01	14.74	10.85	12.71	83.319	14.4	8.818
2004-05	11.95	14.35	10.15	13.59	83.139	10.1	8.689

Source: - Authors computation based on table no-3.

**7.2- Capital expenditure:** - Expenditure made by the government for creation of capital assets in the economy is categorized as capital expenditure. In budget of the government of Maharashtra capital account gives details about capital expenditure on each and every head of expenditure.

**7.2.1-Absolute expenditure on capital account:** - Absolute expenditure and growth rate of capital expenditure on capital account for thirty years has been given in table no.3 in the statistical appendix-III.

Capital expenditure of the state of Maharashtra in 1975-76 stands at Rs43870 lakhs. In 1990-91 it becomes Rs201859 lakhs and in 2004-05 it becomes Rs1981767 lakhs. Per capita capital expenditure is shown in table no. 3. The per capita capital expenditure in 1975-76 stands at Rs79 only. In 190-91 it increases to the Rs258 and in 2004-05 it further increases to Rs1932.

Combined total expenditure is the summation of revenue expenditure and capital expenditure. In 1975-76 this expenditure becomes Rs135851 lakhs, in 1990-91 it climbs up to Rs1077226 lakhs and in 2004-05 it further increases to the level of Rs7086432 lakhs.

**7.2.2- Growth rate and share of capital expenditure:** - Annual growth rate of capital expenditure will give seriousness of the government towards creation of capital assets in the economy and thereby provide developmental opportunities to future generations. Share of capital expenditure in total expenditure and NSDP will give us the idea about how much resources are used by the government for capital formation in the economy from available resources.

Growth in capital expenditure is recorded in table no. 3. Growth in capital expenditure in the year 1976-77 stands at 7.2%, in the year 1990-91 it becomes 10% and in the year 2004-05 unprecedented growth is recorded in capital expenditure to 76%. Growth in per capita capital expenditure is shown in table no. 3. In 1976-77 growth in per capita capital expenditure is 4.9%, in 1990-91 it is 7.4% and in 2004-05 it becomes 73%. Capital expenditure and per capita capital expenditure shows increasing trend.

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When we compare five year average growth in capital expenditure with five year growth in total expenditure then we have only two years in which capital expenditure growth is higher than total expenditure growth i.e. in 1995-96 and 2004-05. Remaining all years are showing less growth in capital expenditure than total expenditure growth.

Compare to growth over 1975-76, growth in capital expenditure is less than growth in total expenditure in all the years under consideration.

While comparing average growth in capital expenditure with that of NSDP of the state, we get an inconclusive result as in three years NSDP growth is higher than growth of capital expenditure and other three years are showing less growth in NSDP than growth in capital expenditure.

Comparison with NSDP over 1975-76 is given in the table no. 2. Growth in NSDP is higher than growth in capital expenditure in all the years under consideration. Wagnerian hypothesis is rejected by this trend.

Proportion of capital expenditure to total expenditure shows declining pattern as proportion of capital expenditure to total expenditure in the year 1980-81 stands at 30.52%, in 1985-86 it is declined to 24.86%, in 2000-01 further declined to 16.68% and slightly improved to 16.86% in 2004-05. This shows that consistently share of capital expenditure in total expenditure of the state is declining reaching to lowest level of just around 16% from 1995-96 to 2004-05.

The same trend is observed in proportion of capital expenditure to total expenditure as here too falling trend is recorded from 5.52% in 1980-81 to just 2.53% in 2000-01 and slightly improving to 2.82% in 2004-05. This is not an encouraging situation as capital expenditure helps to create and maintain developmental potential in the economy but that is falling in all the years.

When we compare per capita capital expenditure with that of per capita income of the state from table -2, we can not get exact pattern as in three years growth in per capita capital expenditure is greater than growth in per capita income of the state and in other three years growth in per capita capital expenditure is less than growth in per capita income of the state.

But comparison of growth in per capita capital expenditure over 1975-76 with that of per capita income, we have greater increase in growth in per capita income than growth in per capita capital expenditure rejecting presence of Wagner's hypothesis in PCI and per capita capital expenditure.

**Table No.2 – Comparison of Capital expenditure and Per capita capital expenditure**

Year	Average growth CE	Average growth TE	Average growth NSDP	Average CE/NSDP	Average CE/TE	Average of PCCE	Average of PCI
1980-81	10.04	14.12	12.59	5.52	30.52	7.497	10.52
1985-86	12.4	17.03	10.54	5.04	24.86	10.06	8.638
1990-91	10.41	13.54	14.46	4.05	19.95	7.742	12.34
1995-96	18.95	14.8	16.14	3.46	20.55	16.74	14.53
2000-01	10.68	14.74	10.85	2.53	16.68	8.232	8.818
2004-05	29.24	14.35	10.15	2.82	16.86	27.18	8.689

Source: - Authors computation based on table no-3.

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**8. Conclusion:** - In revenue expenditure, for average of five years, except two years of 1990-91 and 1995-96 all the years are showing more growth in revenue expenditure than growth in NSDP of the state following Wagnerian hypothesis. All the years are showing greater increase in per capita revenue expenditure than per capita income in all the years further confirming Wagnerian relationship in revenue expenditure. Growth in NSDP is higher than growth in capital expenditure in all the years under consideration. Wagnerian hypothesis is rejected by this trend. As far as five years average growth in PCI and PCCE are concerned, the results are inconclusive. But compare to growth in PCI and PCCE over 175-76, we have greater increase in growth in per capita income than growth in per capita capital expenditure rejecting presence of Wagner's hypothesis in PCI and per capita capital expenditure.

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**10. Statistical Appendix:-**

**Table No. 3-** Revenue, Per capita revenue, Capital and Per capita expenditure with Growth Rates

Year	RE(Rs. 000)	GR RE	PCRE(Rs. )	GRPC RE	CE(Rs. 000)	GRC E	PCCE(Rs. )	GRPC CE	NSDP(Cr.)
1975-76	91981		166.186		43870		79.262		7676.8
1976-77	102886	11.85	181.973	9.49	47029	7.2	83.179	4.943	8573.6
1977-78	112674	9.51	194.9857	7.15	53183	13.1	92.035	10.65	9624.8
1978-79	140720	24.89	238.2522	22.1	67346	26.6	114.02	23.89	10658
1979-80	159892	13.62	264.8696	11.1	69048	2.53	114.38	0.314	12145.7
1980-81	191704	19.89	307.8898	16.24	69574	0.76	111.74	-2.309	15113.3
1981-82	223803	16.74	352.0131	14.33	84983	22.1	133.67	19.62	16965.8
1982-83	262808	17.42	404.4914	14.90	95710	12.6	147.31	10.21	18277.4

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1983-84	318122	21.04	479.0119	18.42	106275	11	160.02	8.631	21151.6
1984-85	387984	21.96	571.9798	19.40	118325	11.3	174.44	9.008	22628
1985-86	449080	15.74	649.1783	13.49	124068	4.85	179.35	2.815	26467
1986-87	497878	10.86	699.5964	7.76	143307	15.5	201.37	12.28	28431
1987-88	550445	10.55	755.9858	8.06	142447	-0.6	195.64	-2.846	33770
1988-89	654065	18.82	877.5383	16.07	156098	9.58	209.43	7.051	40472
1989-90	790255	20.82	1035.516	18.00	183452	17.5	240.39	14.78	50139
1990-91	875367	10.77	1120.088	8.167	201859	10	258.29	7.448	58137
1991-92	1004872	14.79	1258.533	12.36	200284	-0.78	250.84	-2.884	65808
1992-93	1154670	14.90	1418.085	12.67	246686	23.2	302.96	20.78	82076
1993-94	1310869	13.52	1583.085	11.63	387443	57.1	467.9	54.44	101767
1994-95	1481219	12.99	1756.124	10.93	521414	34.6	618.19	32.12	116507
1995-96	1716839	15.90	1998.16	13.78	420807	-19.3	489.76	-20.77	140730
1996-97	2084580	21.41	2344.138	17.31	415915	-1.16	467.7	-4.504	158682
1997-98	2289651	9.837	2523.604	7.655	477863	14.9	526.69	12.61	195168
1998-99	2566303	12.08	2773.861	9.916	465416	-2.6	503.06	-4.487	214557
1999-00	2953822	15.10	3129.504	12.82	870539	87	922.32	83.34	247830
2000-01	3740095	26.61	3889.19	24.27	480724	-44.8	499.89	-45.8	252283
2001-02	3828152	2.354	3909.25	0.515	419806	-12.7	428.7	-14.24	274113
2002-03	4047431	5.728	4073.078	4.190	674307	60.6	678.58	58.29	300476
2003-04	4268006	5.449	4232.829	3.922	1119812	66.1	1110.6	63.66	341424
2004-05	5104665	19.60	4976.979	17.58	1981767	77	1932.2	73.98	387390

Source: - Compiled from State finance- A study of Budgets and RBI Bulletin -various issues, Green books Govt. of Maharashtra and Economic Survey of Maharashtra Various issues  
 RE- Revenue expenditure, GRRE- Growth rate of RE, PCRE- Per capita revenue expenditure, GRPCRE- Growth rate of PCRE, CE- Capital expenditure, GRCE- Growth rate of CE, PCCE- Per capita capital expenditure, GRPCCE- Growth rate of per capita capital expenditure