

***AN ANALYSIS OF PLAN AND NON-PLAN EXPENDITURE OF
GOVERNMENT OF MAHARASHTRA***

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Abstract

Plan expenditure arises out of schemes freshly introduced in an on-going five year plan period; it helps in enhancing the productive capacity of the economy. However non-plan expenditure is a generic term used for all expenditures except plan expenditure. Plan expenditure will be helpful in enhancing the productive capacity of the economy, so it must be increased instead of non-plan 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 plan and non-plan expenditure of government of Maharashtra, to investigate impact of net state domestic product and per capita income on Plan and non-plan expenditure and to study growth trend in Plan and non-plan 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 Plan and non-plan expenditure is tested. The results are inconclusive regarding presence of Wagner's law in Plan expenditure and non-plan expenditure of government of Maharashtra and NSDP and PCI of the State.

Key Words: - Plan expenditure, Non-plan 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 are using 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 plan and non-plan expenditure of the government of Maharashtra.

According to the draft of the Tenth Five Year Plan, "Plan expenditure arises out of schemes freshly introduced in an on-going five year plan period. In the same period, non plan expenditure arises out of schemes carried forward from previous FYP period. Non plan expenditure, therefore, supports the old schemes of government and plan expenditure, the new schemes. Since the new schemes add to the economy's productive capacity as the old schemes did in the past, plan expenditure reflects government investment in enhancing the economy's productive capacity. Thus, non plan expenditure maintains the existing capacities and plan expenditure adds to it."

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

- I. To study the growth of plan expenditure of government of Maharashtra for the period from 1975 to 2005.
- II. To study the growth of non-plan expenditure of government of Maharashtra for the period from 1975 to 2005.
- III. To study the growth of per capita plan expenditure of government of Maharashtra for the period from 1975 to 2005.
- IV. To study the growth of per capita non-plan expenditure of government of Maharashtra for the period from 1975 to 2005.

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

- I. Growth rate of plan and non-plan expenditures are more than the growth rate of NSDP of the state.
- II. Growth rate of per capita plan and non-plan expenditures are more than the growth rate of per capita income of the state.

4. Scope of the Study: - The study is restricted to the plan and non-plan 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. Here we use simple growth rate and percentage and proportion methods to reach to the final results. Five year averages for comparison are taken into consideration to avoid fluctuation in the annual data.

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 test this law for plan and non-plan expenditures of the government of Maharashtra.

7. Analysis of Expenditure: - Expenditure of the government of Maharashtra is divided in plan and non-plan expenditure;

7.1- Plan expenditure: - From the first category of classification of government expenditure, we have plan expenditure which is given in table no. 3 of statistical appendix. Absolute plan and non-plan expenditures which are increasing are given in this table.

7.1.2- Growth rate and share of plan expenditure: - By growth rate and share of plan expenditure in NSDP of the state, we can understand whether plan expenditure is growing more than growth of the economy or not and by share of plan expenditure in NSDP, we can understand relative importance of plan expenditure in NSDP of the state.

Combined average growth in plan expenditure (CAGP) in 1980-81 was 20.1% and combined average growth in NSDP was 12.59%. In 1985-86 CAGP expenditure is 14.4% while that of NSDP it is 10.54%. In 1990-91 it is 16.5% and for NSDP it is 14.4%. In 1995-96 it is 19.5% for NSDP it is 16.14%. In 2000-01 it is just 2.38% while NSDP stands at 8.82% and in the last year 2004-05 CAGP expenditure is 11.5% and for NSDP it is 8.69%. All the figures except 2000-01 indicate that growth in plan expenditure is greater than growth in NSDP. This is in line with Wagnerian hypothesis. A clear positive relationship is found in the plan expenditure and NSDP.

Table No. 1 – Comparison of plan and per capita plan expenditure

Year	Average growth Plan E	Average growth NSDP	Average PE/NSDP	Average of PCPE	Average of PCI
1980-81	20.1	12.59	5.55	17.4	10.52
1985-86	14.4	10.54	6.09	12	8.638
1990-91	16.5	14.46	5.93	13.7	12.34
1995-96	19.5	16.14	4.65	17.2	14.53
2000-01	2.38	10.85	3.26	0.08	8.818
2004-05	11.5	10.15	2.16	11.3	8.689

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

From the table-1, it is clear that the relationship between per capita plan expenditure and per capita income is of Wagnerian type except the year 2000-01 when average growth in plan expenditure is less than average growth in per capita income. A quick glance at table no.1 shows opposite of average growth where except first two years growth in per capita income is greater than growth in per capita plan expenditure invalidating Wagner's proposition.

7.2.2- Growth rate and share of non-plan expenditure: - If we look at the table no.2 and compare NSDP and total non plan expenditure with five year average, it is observed that in all the years noted in table are showing that growth in non plan expenditure is greater than growth in NSDP except three years of 1980-81, 1990-91 and the 1995-96. This can lead us to disprove Wagnerian hypothesis of increase in non plan expenditure higher than increase in NSDP of the state. Proportion of non plan expenditure to NSDP in 1975-76 was 13.6%, in 1990-91 it becomes 13.4% and in the year 2004-05 it becomes 15%. Here, proportion of non plan expenditure to NSDP is showing an increasing trend. Growth in per capita non plan expenditure is also greater than growth in PCI except 1990-91 and 1995-96. In the year 1980-81 both the variables are very close to each other.

Table No. 2 – Comparison of non-plan and per capita non-plan expenditure

Year	Average growth N Plan E	Average growth NSDP	Average NPE/NSDP	Average of PCNPE	Average of PCI
1980-81	12.80	12.59	12.52	10.16	10.52
1985-86	18.37	10.54	14.29	15.9	8.638
1990-91	12.8	14.46	14.27	10.09	12.34
1995-96	13.84	16.14	12.04	11.71	14.53
2000-01	19.01	10.85	11.99	16.35	8.818
2004-05	15.41	10.15	14.25	12.18	8.689

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

Conclusion: -The results are inconclusive for both types of expenditures. Plan expenditure is greater than NSDP of the state, while per capita plan expenditure is less than PCI of the state. Same is true in non-plan expenditure where non-plan and per capita non-plan expenditures are greater than or less than NSDP and PCI of the state, without having a clear trend either increasing or decreasing.

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