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DEVELOPMENT EXPENDITURE IN LOW-INCOME INDIAN STATES

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Abstract

The under-developed economies spend more on public goods and services. The low income states in India spend relatively more on public goods and services as compared to middle- income and high-income states. These low-income Indian states, however, perform relatively poor in socio-economic indicators such as poverty, health facilities, education, etc. This raises a question that why low-income states in India are more deprived despite of high public expenditure. The question has been addressed by testing the Wagner's law for low-income states in India for the period 1980-81 to 2014-15. Wagner's law states that public expenditure increases with rise in state activity. The study considers development expenditure- social sector and economic services. Each head is further categorized into revenue and capital expenditure. Since the study uses time series data for each panel, IM-Pasaran test is used for testing stationarity, and ARDL Model is used for obtaining long-term estimates of Wagner's law. We find that on average low income states in India tend to spend more on social sector and economic services as the output increases. However, the analysis of individual low-income states is different. Results of Odisha and West Bengal validate Wagner's law, public expenditure on both social sector and economic services had increased with output. In Rajasthan, expenditure on social sector is revenue in nature and expenditure in economic services is dominated by capital outlay (elasticity less than one). Although rest of the low income states spends on social sector and economic services with growth in output, the expenditure is revenue in nature. The results indicate that majority of low income states spends more on maintenance of available social services and less on creation of infrastructure. The expenditure on creation of infrastructure is necessary for the development of industries and agriculture in under-developed economies, and thus, capital expenditure is crucial for overall wellbeing of society. The low- income states in India had spent only 37% (average) of total expenditure on capital outlay of economic services during the period from 1980-81 to 2014-15. Apart from having revenue expenditure on social services, low-income states should focus on the development of economic services.

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