ISSN PRINT 2319 1775 Online 2320 7876
Research paper UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022

CAPITAL EXPENDITURES OF TAMIL NADU: A POST-REFORM APPROACH

V. Hilda, Ph.D. Research Scholar, Department of Economics, Aditanar College of Arts and Science, Tiruchendur - Affiliated to Manonmaniam Sundaranar University, Tirunelveli, Tamil Nadu.

Dr. C. Ramesh, Research Supervisor, Associate Professor and Head, Department of Economics, Aditanar College of arts and science, Tiruchendur - Affiliated to Manonmaniam Sundaranar University, Tirunelveli, Tamil Nadu.

ABSTRACT

The study Capital Expenditures in Tamil Nadu analyses the growth trend of Capital expenditure in Tamil Nadu. This study is a time series and positive study, and it is based on secondary data. The main objective of this study is to find out the growth trend of Capital and revenue expenditure in Tamil Nadu and to know about the share of Capital expenditure in Net states domestic product and also this study is based on the hypothesis 'The elasticity of capital expenditure is greater than unity'. This study concluded that the capital expenditure in net state domestic product has increased in Tamil Nadu during the post-reform period

INTRODUCTION

Public expenditure may be regarded as a regulator of the index of aggregate economic performance. It is a magic wand in the hands of fiscal managers who can use the expenditure programs to cause the necessary variation in consumption, saving and investment depending on the economic compulsions of the situation.

The expenditure program is part of the fiscal policy of the state. The government formulates programs and under-takes different social and economic activities, the actual implementations of which are done through the acts of spending. Public expenditure is an important instrument for realizing the objective of state policy. 'The magnitude and pattern of public expenditure of the constituent states in a federal set-up like India is determined jointly by the policy of the central government as well as of the state governments. The attainment of objectives as set out by the centre depends on the willingness and the ability of the states to pursue proper courses of action in their own sphere'[1]

The external payments crisis of 1991 was, to a large extent, an inevitable consequence of the deteriorating fiscal situation during the 1980s. The 1980s, especially the second half, was marked by high and persistent fiscal deficits, accompanied by large revenue deficits. This has led to a significant enlargement of the debt servicing obligations both at the central and state levels.

Persisting high fiscal deficit during the 80s, compounded by the balance of payment problem faced by India led her to adopt a number of stabilization and structural measures. The stabilization measures relate to managed reduction in expenditure for an orderly adjustment of domestic demand to control inflationary trends and covering the balanced payment gap. To resolve this crisis through the introduction of stabilization and structural adjustment program (SAP) or economic reforms. Give this background, an attempt has been made in this study to

ISSN PRINT 2319 1775 Online 2320 7876
Research paper UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022

---

1. Sibani Dutta, 'Public Expenditure and Economic Development', Ashish Publishing House, New Delhi, 1985, pp. 26-27.

examine trends in Tamil Nadu capital expenditure during the pre and post-reform period.

STATEMENT OF THE PROBLEM

Under India's federal system, the states have important functions and responsibilities in various economic and social sectors, in addition to their more narrow Government roles. The state Government's Finance has been undergoing severe strains over the last few years. while the gap between expenditure responsibilities and revenue assigns has always been a concern for backward and fiscally weaker states the developed states enjoy buoyant revenue and manage their financial affairs. In the year 1990s Government of India faced many problems, like unfavorable balance of payment, high inflation, Fiscal deficit, etc. To overcome these problems, the central government of India announced a package of economic reforms in 1991, viz Banking reforms, Agricultural reforms, Industrial reforms, and fiscal reforms. The aims of fiscal reforms is to reduce the fiscal deficit at 3.5% in national income. There are two measures to reduce the fiscal deficit. One is to raise the revenue through direct and indirect taxes, which is a burden to the society and affects the ability and willingness to save and invest. The last one is reduce expenditure. But this is not possible because most of the expenditures are committed in nature. Capital expenditure also not exceptional for this. Her the focus of this study is to determine whether the Tamil Nadu Government has reduce Capital expenditure during the post-reform period, more over the study answer the following research questions.

1. Has the growth trend of capital expenditure in Tamil Nadu increase during the post- reform period?
2. Whether the capital expenditure grows faster than the revenue expenditure during the post-reform period?
3. Is there any relationship between state income and capital expenditure of Tamil Nadu during the post- reform period?

OBJECTIVES

The general objective of this study is to find out the growth trend of capital expenditure in Tamil Nadu. The specific objectives are

1. To examine the growth pattern of total capital expenditure of Tamil Nadu during the post- reform period.
2. To find out the relationship between state income and total capital expenditure of Tamil Nadu during the post- reform period.
3. To compare the growth trend of capital expenditure and revenue expenditure during the post- reform period.

HYPOTHESES

This study is based on the following two hypotheses

1. Capital expenditure grows faster than revenue expenditure during the post-reform period.

ISSN PRINT 2319 1775 Online 2320 7876
Research paper UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022

2. The elasticity of capital expenditure is greater than unity

METHODOLOGY

This study is based on Secondary data. Data was collected on the capital expenditure of Tamil Nadu from 1991-92 to 2016-17 from RBI bulletin and the RBI website, and NSDP was collected from the Handbook of statistics on Indian Economy.

The population figures were collected from the census report and the researcher estimated population figure for individual years.

The researcher used a semi-log to estimate the Compound annual growth rate of Expenditure on various heads in Tamil Nadu during the post-reform period. The functional form used to estimate the yearly compound growth rate is Y= a b t:

Where,

y- Dependent variable (Expenditure)

t- Independent variable (time)

'a' and 'b' - parameters to be estimated.

The researcher has used the regression coefficient to find out the income elasticity of the state expenditure based on the exponential relationship between the dependent variable per capita capital expenditure and independent variable per capita state income by employing the following formula.

$$\text{Log } Y = a + b \log X$$

Where the regression coefficient 'b' becomes the elasticity. The present study analyzes public expenditure on capital expenditure in Tamil Nadu during the post-reform period.

ANALYTICAL DISCUSSION

GROWTH TREND OF CAPITAL AND REVENUE EXPENDITURE IN TAMIL NADU

Revenue Expenditure is that part of government expenditure that does not result in the creation of assets, payment of salaries, wages, pensions, subsidies and interest fall in this category as revenue expenditure examples. Also, not that revenue expenses are incurred by the government for its operational needs. Modern government collects huge sums of money.

According to Porwal, “theoretically the expenditure incurred need not be on the creation of concrete assets of material character alone. Even the expenditure incurred on creation of financial assets such as investment in shares of commercial concerns or granting loans to local bodies maybe regarded as expenditure on capital account. The investment in the creation of acquisition of physical and financial assets”[1].

ISSN PRINT 2319 1775 Online 2320 7876
Research paper UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022

---

1 Porwal.L.S, 1971 "State Finance in India, A case study of Rajasthan", Sultan Chand & sons, Delhi. pp.161

TABLE - 1

GROWTH TREND OF CAPITAL AND REVENUE EXPENDITURE IN TAMIL NADU AT CURRENT PRICE

Year	Capital Expenditure			Revenue Expenditure		
	Absolute Amount (Rs In Crores)	Per Capita (In Rs)	% In Total Expenditure	Absolute Amount (Rs In Crores)	Per Capita (In Rs)	% In Total Expenditure
1991-92	279.09	49.96	3.12	8679.52	1553.83	96.88
1992-93	322.37	57.04	3.64	8542.53	1511.59	96.36
1993-94	550.52	96.30	5.91	8758.00	1531.97	94.09
1994-95	679.95	117.59	6.59	9634.95	1666.28	93.41
1995-96	590.94	101.05	5.14	10910.57	1865.76	94.86
1996-97	919.64	155.52	6.58	13064.89	2209.43	93.42
1997-98	1467.79	245.50	8.94	14950.85	2500.68	91.06
1998-99	1153.32	190.81	6.12	17697.40	2928.00	93.88
1999-2000	644.93	105.56	3.02	20727.83	3392.63	96.98
2000-01	1546.88	250.50	6.64	21752.44	3522.59	93.36
2001-02	1777.91	284.89	7.62	21556.97	3454.31	92.38
2002-03	1627.54	256.79	5.96	25687.70	4053.01	94.04
2003-04	3589.90	557.85	12.44	25270.94	3926.95	87.56
2004-05	4563.97	698.65	13.54	29154.87	4462.99	86.46
2005-06	4054.56	611.55	11.24	32008.67	4827.91	88.76
2006-07	5952.37	884.81	13.46	38264.97	5688.06	86.54
2007-08	7462.23	1093.43	14.80	42975.01	6297.09	85.20
2008-09	9104.30	1315.29	14.52	53590.26	7742.12	85.48
2009-10	8572.59	1221.30	12.62	59375.35	8458.94	87.38
2010-11	12436.27	1747.51	14.57	72916.30	10245.99	85.43
2011-12	16335.65	2264.47	16.31	83838.04	11621.74	83.69
2012-13	14567.68	1992.51	13.05	97067.44	13276.49	86.95
2013-14	17173.07	2318.00	13.52	109824.67	14824.02	86.48
2014-15	17802.98	2371.54	12.14	128828.00	17161.21	87.86
2015-16	18994.58	2497.86	11.87	140993.23	18541.15	88.13
2016-17	20709.49	2688.93	11.91	153195.26	19890.97	88.09
CAGR	19.72	18.18		12.86	11.40	

Note : CAGR-Compound Annual Growth Rate.

ISSN PRINT 2319 1775 Online 2320 7876
Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022

Source : Absolute Amount of capital and revenue – RBI bulletin and RBI website.
Per capita expenditure
CAGR
% in Total Expenditure
Computed by the Researcher

Table 1 presents that the growth trend of capital and revenue expenditure of Tamil Nadu. The capital expenditure in absolute amount increased from Rs.279.09crores in 1991-92 to Rs.20709.49crores in 2016-17 at the compound annual growth rate of 19.72 per cent. Per capita expenditure also rose from Rs.49.96 in 1991-92 to Rs.2688.93 in 2016-17 at the compound annual growth rate of 18.18 per cent. The share of capital expenditure in total expenditure has increased from 3.12 per cent in 1991-92 to 11.91 per cent in 2016-17.

Whereas, in absolute term, the total revenue expenditure increased from Rs.8679.52crores in1991-92 to Rs.153195.26 crores in 2016-17, a growth rate of 12.86 per cent during the study period. In 1991-92 per capita revenue expenditure was Rs1553.83, which increased to Rs19890.97 in 2016-17, recording an 11.40 per cent compound annual growth rate. The proportion of revenue expenditure in total expenditure was 96.88 per cent in 1991-92, and it declined to 88.09 per cent in2016-17. It implies that the share of capital expenditure in total expenditure has increased tremendously during the study period. It is not due to raising the level of capital expenditure but because of shrinking the revenue expenditure during the post-reform period. So the first hypothesis 'Capital expenditure grows faster than revenue expenditure during the post-reform period', is proved.

TABLE- 2

CAPITAL EXPENDITURE AS PERCENTAGE OF NET STATE DOMESTIC PRODUCT

Year	Total Capital Expenditure	NSDP	% In NSDP
1991-92	279.09	32584	0.86
1992-93	322.37	37922	0.85
1993-94	550.52	51643	1.07
1994-95	679.95	61276	1.11
1995-96	590.94	69720	0.85
1996-97	919.64	79118	1.16
1997-98	1467.79	92689	1.58
1998-99	1153.32	105728	1.09
1999-2000	644.93	119704	0.54
2000-01	1546.88	130413	1.19
2001-02	1777.91	131392	1.35
2002-03	1627.54	138253	1.18
2003-04	3589.90	153874	2.33
2004-05	4563.97	193645	2.36
2005-06	4054.56	228846	1.77
2006-07	5952.37	276711	2.15

ISSN PRINT 2319 1775 Online 2320 7876
Research paper UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022

2007-08	7462.23	313812	2.38
2008-09	9104.30	359391	2.53
2009-10	8572.59	430013	1.99
2010-11	12436.27	527912	2.36
2011-12	16335.65	602851	2.71
2012-13	14567.68	768295	2.17
2013-14	17173.07	858870	2.23
2014-15	17802.98	957350	1.86
2015-16	18994.58	1057084	1.80
2016-17	20709.49	1139790	1.82

Note : NSDP- Net State Domestic Product
Source : Total Capital Expenditure – RBI Bulletin and RBI Website.
NSDP - Handbook of Statistic on Indian Economy
% in NSDP – Computed by the researcher.

Table 2 presents the proportion of total capital expenditure in NSDP in Tamil Nadu. During the study period, the share of the total capital expenditure in NSDP has increased from 0.86 per cent in 1991-92 to 1.82 per cent in 2016-17. According to Guhan, "Since 1970s Tamil Nadu has opted for a large current expenditure at the expenses of capital expenditures"[2] is not applicable for now. It is surprising that the Government of Tamil Nadu gives more importance to capital expenditure now-a-days.

TABLE – 3

ELASTICITY OF CAPITAL EXPENDITURE IN TAMIL NADU FROM 1991-92 TO 2016-17

S.No	Capital Expenditures	Elasticity
1	Capital Expenditure	1.22
2	Developmental (capital) Expenditure	1.22
3	Capital Expenditure on Social & Community Services	1.28
4	Capital Expenditure on Economic Services	1.23
5	Non- Developmental (capital) Expenditure	1.10

Source : computed by the researcher

Table 3 shows the elasticity of capital expenditure and its components. It is surprising to note that the elasticity of all types of capital expenditure is greater than unity. Hence we conclude that the economic reform of India does not affect the capital expenditure of Tamil Nadu. So the second hypothesis 'The elasticity of capital expenditure is greater than unity', is proved.

ISSN PRINT 2319 1775 Online 2320 7876
Research paper **© 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, Iss 12,Dec 2022**

CONCLUSION

The study capital expenditure of Tamil Nadu during the period of 1991-92 to 2016-17 concludes that the absolute and per capita level of capital and revenue expenditure has increased during the study period. The share of capital expenditure in total expenditure has increased but the share of revenue expenditure in total expenditure declined in Tamil Nadu during the post-reform period. Moreover, the share of capital expenditure in states income has increased. Also, this study clearly shows that the elasticity of capital expenditures are greater than unity.

REFERENCE

1. Sibani Dutta, 'Public Expenditure and Economic Development', Ashish Publishing House, New Delhi, 1985, pp. 26-27.
2. Guhan. et al.,(edit), Tamil Nadu Economy Preference and Issues. Madras Institute for Development Studies (Oxford &IBM) New Delhi.

2 Guhan.M.S, 1979, State Finances in Tamil Nadu Madras Institute for developmental studies, Madras, pp-259.