

Public expenditure on agriculture and allied activities in Tamil Nadu during the post reform era

Mahalakshmi . G¹

Abstract: *Agriculture forms the backbone of the Indian economy. Agricultural success is systematically related to how high the share of total budgetary expenditures goes to agriculture. A great concern has been widely expressed by several economists that economic reforms have negative impact on government expenditure particularly in agricultural sector. In this backdrop, an attempt has been made to know the impact of economic reforms on Tamil Nadu state government's expenditure in agriculture and allied activities. The study shows that over the period of economic reform, in Tamil Nadu, growth rate of expenditure on agriculture and allied activities slowed down significantly. The share of expenditure on agriculture in state domestic product has also decelerated. This is really disturbing.*

Keywords: Public Expenditure, Agriculture and Allied Activities, Economic Reforms, Inter-State Variation

Introduction

Rapid growth in public expenditure is a notable feature of governmental activity. In India, public expenditure has been increasing year by year due to the expansion of state activities. Since the mid- 1970s, the growth of current expenditures accelerated and therefore India's deficit on the current account increased throughout the eighties. The net outcome was that India's external debt surged continuously which landed the economy into the crisis. To tackle the problems arising from the crisis, the government of India introduced reforms. Being a part of the federal system, Central Government's reform measures have adversely impacted States' budgets. Therefore in India, an important issue which has gained prominence in the recent years is the impact of economic reforms on the expenditure pattern of state governments.

Agriculture forms the backbone of the Indian economy and despite concerted industrialization in more than six decades agriculture still occupies a pride of place. It provides livelihood to about three-fourth of the population, supplies the bulk of wage goods required by the non-agricultural sector and raw-materials for a large section of industry.

In India, the most important item under economic services is agriculture and its allied services. Agriculture and allied services include crop husbandry, soil and water conservation, animal husbandry, dairy development, fisheries, forestry and wild life, plantations, food storage and ware housing, agricultural research and education, agricultural finance institution, co-operation and other agricultural programs.

There is a widespread belief that agricultural success is systematically related to how high the share of total budgetary expenditures goes to agriculture. Inadequate government

¹ Associate Professor, Department of Economics, Rani Anna Govt.College for Women, Tirunelveli.

Corresponding author: Mahalakshmi . G can be contacted at: gmahaatchu@gmail.com

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spending and low gross capital formation seriously compromise agricultural productivity in countries with widespread poverty and undernourishment of farm labourers. According to Porwal, “in any developing economy agriculture is the starting point for the promotion and furtherance of the economic growth”. Hence, there is a need for sustainable and balanced development of agriculture and the allied sectors which requires considerable public expenditure on this sector. A great concern has been widely expressed by several economists that economic reforms have negative impact on government expenditure, particularly in agriculture. The spate of farmers’ suicides reported from some states reflects the distress condition of agriculture after 1991 (Poonam Singh, 2014).

The core of this study is to analyze the growth pattern of public expenditure on agriculture and allied activities in Tamil Nadu during pre and post reform period to understand the impact of economic reforms on that, and also the inter-state differentials in government spending among the southern states namely Andhra Pradesh, Karnataka, Kerala and Tamil Nadu.

Objectives

The specific objectives are

1. To compare the growth pattern of expenditure on agriculture and allied activities in Tamil Nadu during the pre and post reform period.
2. To estimate the responsiveness of expenditure on agriculture and allied activities to the growth of the economy in Tamil Nadu during the pre and post reform period.
3. To estimate the inter-state variation in the per capita expenditure on agriculture and allied activities during the pre and post reform period.

Hypotheses

1. There is no significant difference between pre and post reform period in the growth pattern of public expenditure on agriculture and allied activities in Tamil Nadu.
2. Income elasticity of public expenditure on agriculture and allied activities in Tamil Nadu is greater than unity during the post reform period.

Nature and Sources of Data

Secondary data form the basis of this study. The data were collected from RBI, RBI Bulletins and RBI Website, Economic Survey and Hand Book of Statistics on Indian Economy.

Methodology

Simple percentages and Compound Annual Growth Rate have been worked out. The functional form used to estimate the compound growth rate is $Y = ab^t$. The compound annual growth rate percentage is calculated by using the formula $(\text{Antilog } b - 1) \times 100$. To assess the growth of public expenditure in real terms, the influence of price changes should be eliminated and for this national income deflator at 1980-81 prices has been made use of. To trace the income elasticity of state expenditure on agriculture, regression coefficient was calculated by employing the following formula $\text{Log } Y = a + b \text{ log } X$. Ranking, all state average, standard deviation and coefficient of variation have been calculated to examine the relative position of four southern states and to estimate the inter-state differentials.

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Results and Discussion

During the pre reform period, the total expenditure on agriculture and allied activities increased abundantly at the growth rate of 15.27 per cent and per capita expenditure had increased at the rate of 13.61 per cent. The share of expenditure on agriculture and allied activities to revenue expenditure varied between 7 percent and 20 percent. The state spent nearly 2 per cent of its income to agriculture and allied activities.

Table 1: Expenditure on Agriculture & Allied Activities in Tamil Nadu (Current Price)

Pre Reform					Post Reform				
YEAR	T.E	P.E	% to RE	% to NSDP	YEAR	T.E	P.E	% to RE	% to NSDP
1971-72	31.06	7.54	8.69	1.15	1991-92	873.98	156.46	10.07	2.68
1974-75	71.56	16.50	13.54	1.97	1995-96	962.13	164.53	8.82	1.38
1977-78	90.70	19.92	12.84	1.93	1999-2000	2010.75	329.11	9.70	1.68
1980-81	149.62	31.38	12.99	2.07	2003-04	1102.09	171.26	4.36	0.72
1983-84	355.72	71.29	18.62	3.48	2007-08	1831.87	268.42	4.26	0.58
1986-87	207.02	39.71	7.46	1.35	2011-12	3532.42	489.67	4.21	0.45
1990-91	533.06	96.72	9.45	1.93	2016-17(BE)	10540.48	1368.80	6.43	0.77
CAGR	15.27	13.61			CAGR	10.05	8.70		

Source: T.E - RBI, P.E., % & CAGR - Computed

It is inferred from the table that expenditure on agriculture and allied activities grew faster in pre reform period and slower in post reform period. The proportion of total expenditure spent on agriculture and allied activities has declined after reforms. The share was less than 5 per cent in nine years during the span of 26 years. The worrying aspect is that the share of expenditure on agriculture in state domestic product was less than one per cent since 2001-02. It reveals the negligence of this sector by the state Tamil Nadu after the implementation of economic reforms. This is really disturbing. Hence, the first hypothesis, there is no significant difference between pre and post reform period in the growth pattern of public expenditure on agriculture in Tamil Nadu is rejected.

Table 2: Expenditure on Agriculture & Allied Activities in Tamil Nadu (1980-81 Price)

Pre Reform			Post Reform		
YEAR	T.E	P.E	YEAR	T.E	P.E
1971-72	66.86	16.23	1991-92	339.87	60.84
1974-75	102.19	23.57	1995-96	259.37	44.35
1977-78	118.64	26.06	1999-2000	422.86	69.21
1980-81	149.62	31.38	2003-04	201.74	31.35
1983-84	274.17	54.95	2007-08	268.17	39.3
1986-87	129.46	24.83	2011-12	375.79	52.09
1990-91	234.96	42.63	2016-17(BE)	1171.16	152.09
CAGR	6.49	4.95	CAGR	4.87	3.59

Source: T.E - RBI, P.E. & CAGR - Computed

The rise in cost due to the rise in price might have pushed up the expenditure level. Hence, to assess the real increase in total and per capita expenditure, the expenditures should be deflated. Between 1971-72 and 2016-17, the growth in state government's expenditure after removing the influence of price charges can be observed from the Table 2. Though in money terms the outlay increased voluminously prior to reforms, in real terms it has not expanded sufficiently. This implies that inflation is a major factor in causing the uptrend of public

expenditure. Therefore inflation must be brought down to reduce the cost of government projects.

Moreover, in real term also, both total and per capita expenditure increased at a slower rate after the introduction of reforms.

Income Elasticity of Expenditure on Agriculture and Allied Activities

Prior to economic reforms, one per cent increase in per capita income led to 1.15 per cent increase in per capita expenditure, but after reforms, one per cent increase in per capita income has ruled to only 0.69 per cent increase in per capita expenditure. Hence, the second hypothesis, Income elasticity of public expenditure on agriculture and allied activities in Tamil Nadu is greater than unity during the post reform period is rejected.

Table 3: Inter - State Variation – Pre Reform Period (Southern States)

YEAR	Andhra Pradesh		Karnataka		Kerala		Tamil Nadu		Mean	S.D	C.V
	P.E	R	P.E	R	P.E	R	P.E	R			
1971-72	6.78	4	7.69	2	7.88	1	7.54	3	7.47	0.42	05.59
1975-76	12.73	4	18.15	1	14.87	3	17.15	2	15.73	2.10	13.34
1980-81	28.18	4	38.77	1	36.46	2	31.38	3	33.70	4.16	12.34
1985-86	30.04	4	41.44	1	33.73	3	35.30	2	35.13	4.11	11.71
1990-91	41.80	4	63.91	3	65.07	2	96.72	1	66.87	19.57	29.26
CAGR	9.52	4	11.17	2	11.13	3	13.61	1			

Source: Calculated

Table 3 shows the rising trend of expenditure on agriculture and allied activities in the state of Tamil Nadu as well as in the southern states during the pre reform period. Per head expenditure grew faster in Tamil Nadu (13.61 per cent) and slower in Andhra Pradesh (9.52 per cent). Tamil Nadu spent more than all state average in all the years except 1980-81. Andhra Pradesh never spent equal to average per capita expenditure. Co-efficient of variation increased which indicates the increasing diversity among the southern states regarding the per capita expenditure on agriculture and allied activities.

Table 4 : Inter - State Variation – Post Reform Period (Southern States)

YEAR	Andhra Pradesh		Karnataka		Kerala		Tamil Nadu		Mean	S.D	C.V
	P.E	R	P.E	R	P.E	R	P.E	R			
1991-92	58.40	4	82.93	3	93.21	2	156.46	1	97.75	36.18	37.01
1996-97	78.60	4	170.06	3	181.13	2	185.54	1	153.83	43.80	28.47
2002-03	113.05	4	200.66	2	229.84	1	180.42	3	180.99	42.98	23.75
2008-09	456.32	2	569.24	1	451.82	3	358.01	4	458.85	74.85	16.31
2013-14	455.90	4	2005.16	1	1155.29	2	917.71	3	1133.52	562.58	49.63
2016-17(BE)	924.91	4	1733.5	2	1778.26	1	1368.80	3	1451.36	342.94	23.63
CAGR	11.21	3	12.40	1	12.01	2	8.70	4			

An average Indian still continues to spend almost half of his/her expenditure on food. Agriculture continues to a source of livelihood and food security for a vast majority of low

Public expenditure on agriculture and allied activities in Tamil Nadu during the post reform era income, poor and vulnerable sections of the society. It is distressing to observe that Tamil Nadu spent less on agriculture after 1996 – 1997 and hence during the post-reform period, Tamil Nadu state's expenditure was less than all state average after 1996-97. It is surprising to note that in Andhra Pradesh, Karnataka and Kerala growth rate of expenditure on agriculture is higher in the post reform period. Likewise the inter-state variation is higher in the post reform period than pre reform period.

Conclusion

Although agriculture now accounts for only 15 per cent of Gross Domestic Product, it is still the predominant sector in terms of employment and livelihood with more than half of India's workforce engaged in it as the principal occupation. It would be clear that the total expenditure in each budget of Tamil Nadu has increased and correspondingly, the expenditure on agriculture and allied sectors has also increased. But it is a great disappointment that over the period of economic reforms, in Tamil Nadu, growth rate of expenditure on agriculture and allied activities slowed down significantly. The share of expenditure on agriculture in state domestic product is also decelerating. This is really disturbing. To develop the economy and alleviate rural poverty higher allocations must be made for agriculture.

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