

AN EVALUATION OF THE GOVERNMENT REVENUE AND EXPENDITURE PATTERN IN PUNJAB STATE OF INDIA

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The article investigates the effect of state government budget on economic growth in case of Punjab state of India. The main objective of this study was to examine the causal relationship between government receipts and government expenditures for the state of Punjab over the period of 23 years i.e. 1990 to 2012 using annual data set. The paper tests whether government revenue causes government expenditure or whether the causality runs from government expenditure to government revenue, and if there is bidirectional causality. Developed time series techniques are used namely Augmented Dickey-Fuller (ADF) for unit root test, Phillips perron unit root test and KPSS unit root tests are performed on the levels, first differences and second differences of the variables. KPSS has the null hypothesis of stationarity and the ADF & PP has the null hypothesis of non-stationarity. The Johnson co-integration test is applied to examine the long-run relationship between the variables i.e. receipts and expenditures and VAR Granger Causality test is applied to examine the direction of causality between the variables i.e. receipts and expenditures. Moreover, the granger causality test results revealed the presence of uni-directional and bi-directional causality from the receipts to expenditures and expenditures to receipts. The findings of the study showed that there is a positive relationship between the receipts and expenditures in the long run. The results of the study suggest that the government should focus on economic policies to increase the receipts and expenditures as a potential source of economic growth in Punjab state of India.

Key words: Government budget, receipts and expenditures, unit root test, co-integration and granger causality etc.

INTRODUCTION

Economic and Statistical Organization acts as the data bank and caters to the statistical

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needs of the State as well as Central Government, policy makers and research institutions and individual researchers. The Organization collects primary as well as secondary data at the state, district, block and village level. The data thus collected is compiled, analyzed, interpreted and disseminated through various departmental publications. This Organization also coordinates statistical activities within the State and keeps proper liaison with the Central Statistical Organization, Government of India. "Statistical Abstract of Punjab" and "Economic Survey of Punjab" are two widely known annual publications of this Organization, which contain comprehensive data-based information on various socioeconomic aspects in the State. Both of these publications are Budget Documents.

Government expenditure and government revenue are two of the major instruments of economic policy. In recent years, the relation between public outlays and public receipts has been one of the fundamental issues of applied economics. The relationship between government revenue and expenditure is a major concern for economists and policy makers alike. This controversial issue has been the subject of extensive theoretical and empirical research for decades. This research became more important and relevant since governments have been incurring continuous budget deficit in both developed and developing countries. Understanding this relationship is an important element for an effective fiscal policy. Therefore, the causal relationship between government expenditure and government revenues comes to be an empirical one. The purpose of this paper is to investigate the causal relationship between government expenditure and revenues over the period 1990 to 2012 in Punjab state of India. The dynamic relationship between government revenues and expenditure has been widely discussed and analyzed during the last decade. There are at least two major reasons for this; the rather dramatic public sector growth in most developed countries since World War II and the growing budget deficits of central and local governments. The conducted research has, almost exclusively, been directed towards the central government level, a concentration that might be explained by the fact that local governments constitute a relatively unimportant component in public decision-making in many countries. In the developing countries, on the other hand, local governments play a major role in the public sector.

Government budget deficits have significant impact on the economy. Such fiscal imbalance tends to reduce national savings and economic growth. Therefore, the decrease of the fiscal deficit by reducing government expenditure and/or raising

revenues would stimulate economic growth. However, one of the most studied topics in macroeconomics is the testing of the relationship between government expenditures and its revenues. Determination of the interdependence direction between these two macroeconomic variables would assist policy makers to recognize the source of any fiscal imbalances that might exist. Consequently, this would facilitate efforts to develop a suitable strategy for fiscal reforms. Hence, the analyzing of relationship between government expenditure and government revenue has attracted significant interest.

Ecological Funds

Ecological funds are earmarked financing mechanisms that may support a variety of ecological expenditures. Ecological funds are increasingly popular environmental financing mechanism in developing economies. The failure of governments to tackle environmental problems by putting in place environmental regulations and enforcement mechanisms, as well as the failure of the financial and capital markets to provide access to financing at reasonable terms, are the typically underlying reasons why special environmental financing mechanisms are established. (World bank group July 1998, pollution prevention and abatement handbook)

Environmental funds provide financing for a broad range of environmental needs. There are several funds that now have years of experience, and others that have been created or are still in the process of establishment. Most environmental funds include in their governing bodies representative of the national government as well as non-government organizations, and are managed by professional staff knowledgeable about the national conservation situations and about the mechanisms of conservation finance. Some of the programs and activities financed by these funds are the recurrent expenses of national parks and protected areas, biodiversity conservation and sustainable use of natural resources and strengthening of local conservation institutions. The variety of available funding mechanisms in EFs assure that each fund can adapt to the context of its national laws and conditions. (Oleas Reyna)

Although the government funding for environmental up gradation has grown significantly in Punjab state of India, green researchers have not paid much attention to the empirical assessment of the contributions of the environmental sector to Punjab economy. The present study however, attempts to address two empirical issues:

