AN ANALYSIS OF PUBLIC EXPENDITURE ON VILLAGE AND SMALL INDUSTRIES IN ASSAM IN RECENT DECADES

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Abstract: Assam is situated at the North-Eastern Himalayan sub –region of India. The economy of the state is mostly agricultural based .In spite of having huge potentials for the development of resource-based and demand –based industries in the state, the pace of industrialization in Assam is not satisfactory. In a backward state like Assam, small scale industries have a big role to play. As these industries require minimum capital and ordinary tools and implement, rural families can run these industries. Considering the significant role played by these industries the government has allocated funds through budget for the improvement of such units. This paper is an attempt to analyze the public expenditure on village and small industries in Assam. Taking into consideration all issues related to the village and small industries, a policy reform is important to address almost all aspects associated with this significant sector. All these require a huge amount of expenditure on the part of the government and it will certainly aggrandize the economy of the state.

Key Words: Public Expenditure, Village and Small Industries, Assam.

1.INTRODUCTION:

Assam is situated at the North-Eastern Himalayan sub –region of India. The economy of the state is mostly agricultural based .In spite of having huge potentials for the development of resource-based and demand –based industries in the state, the pace of industrialization in Assam is not satisfactory. In a backward state like Assam, small scale industries have a big role to play. There is ample scope for the development of small scale and village industries and such development will not only mobilize local resources but will also increase income and generate employment opportunities. As these industries require minimum capital and ordinary tools and implement, rural families can run these industries. The village and small industries include handloom, weaving, rope –making, bell metal, bamboo work etc. which provide subsidiary employment to a good number of people in the rural areas. Considering the significant role played by these industries the government has allocated funds through budget for the improvement of such units. Public expenditure has regained prominence after the traumatic experiences of great depression,1930. The deliberate use of the fiscal instruments for the realization of economic ends is essentially an outcome of the contribution of Keynes. Keynes stated that public expenditure is the fundamental determinant of economic growth while Wagner, a German economist stated that economic growth is fundamental determinant of public expenditure. This paper is an attempt to analyze the public expenditure on village and small industries in Assam.

2.OBJECTIVES:

- To analyze the trend and composition of public expenditure on village and small industries in Assam.
- To study the relationship between public expenditure on village and small industries and the economic growth of Assam.

3.DATA AND METHODOLOGY:

3.(i). Data:

In the study we use secondary data for the period 1999-00 to 2016-17, taken from Reserve Bank of India Publications and Directorate of Economics and Statistics, Assam. The data of expenditure on village and small industries have been obtained from RBI Publications-State Finances: A :Study of Budgets. Here, all the time series have been deflated to neutralize the impact of changes in prices and are expressed in lakh rupees at constant 2011-12 prices. Here, budget estimates and revised estimates are taken for the year of 2013-14 and 2014-15.

3.(ii) Methodology:

All variables used in the model are tested for stationary using the Augmented Dickey Fuller (ADF) Test. We also perform Granger Causality Test in our analysis. To choose appropriate number of lags we use VAR Lag Selection Criteria. We use E-Views 10 SV software for analysis.
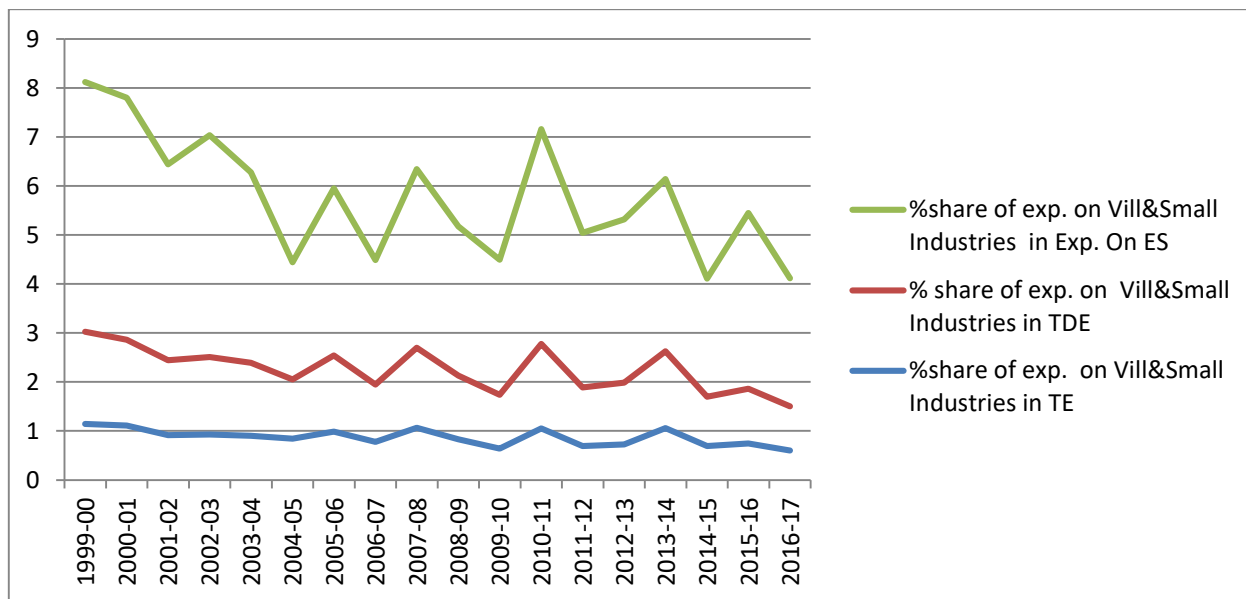
4. ANALYSIS:

The budget of the state reflecting the total efforts on the part of the government to provide both social and economic services has recorded manifold changes over time. The total government expenditure can be disaggregated into its component parts viz., revenue and capital expenditures and again each of them are disaggregated as general services, social and community services, economic services, grants and contribution. The expenditure on village and small industries is under the head of economic services .

The trends of public expenditure on village and small industries in Assam at constant 2011-12 prices(in Rs lakhs) is depicted in figure-1.
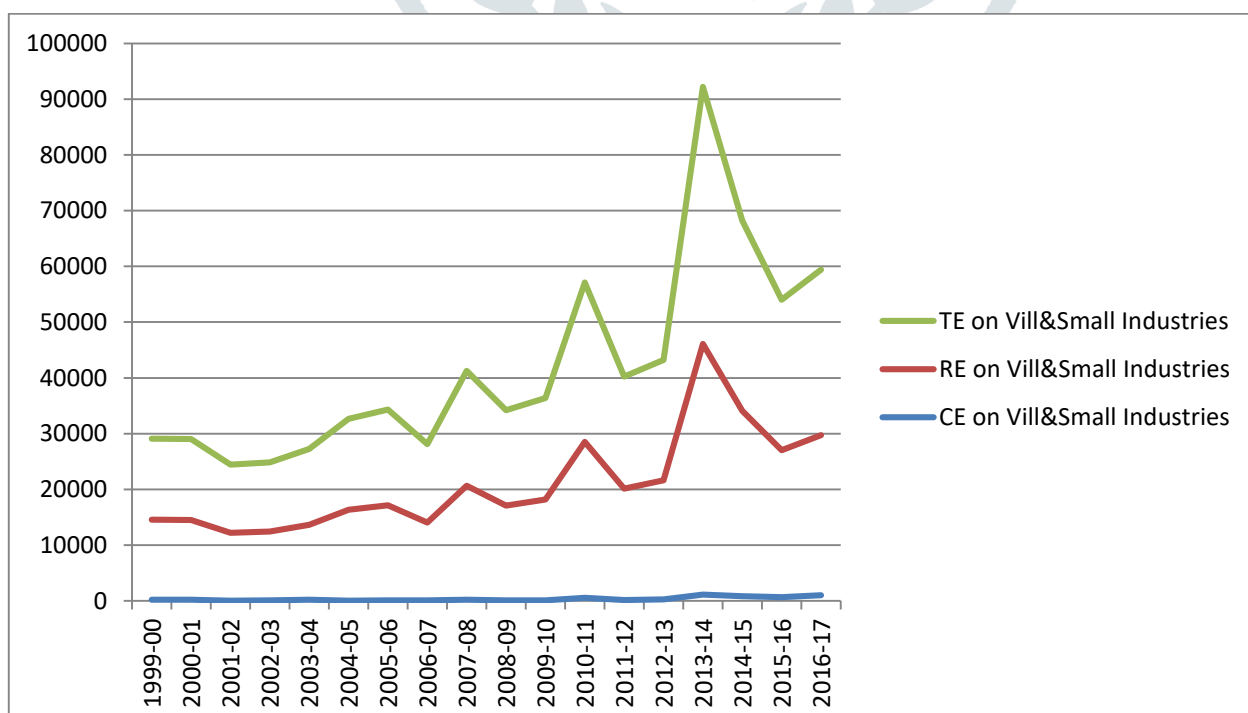
From the above figure it is cleared that there is tremendous fluctuations in expenditure on village and small industries in Assam over time. Although expenditure on village and small industries has declined in 2002-03,yet, recently, it is witnessed that total public expenditure on that particular sector is increased. Capital expenditure remain constant over the period of time. Therefore, the steep rise in total expenditure on village and small industries is due to the revenue expenditure on it.

The Percentage share of expenditure on village and small industries in Total Expenditure, in Expenditure on Economic Service and in Development Expenditure is shown in following diagram:

5. EMPIRICAL ANALYSIS:

5.(i) Test for unit roots(**ADF**) :All the variables used in the model are tested for stationary using Augmented Dickey Fuller Test(ADF).

Table-1:Test for unit root: ADF

Variable	Level			1st difference		
	ADF test statistics	Prob.	Decision	ADF test statistics	Prob.	Decision
GSDP	3.214992	1.0000	Not Stationary	-4.783289**''	0.0103	Stationary
Exp.on vill.&small Ind.	-0.485788	0.8688	Not Stationary	-5.954486**&***	0.0003	Stationary

*=1%level of significance;**=5% level of significance; ***=10% level of significance; **''=at all levels.

5.(ii) VAR Lag Order Selection Criteria:

To choose appropriate number of lags we use VAR Lag Order Selection Criteria.The Sequential Modified LR test statistic, FPE, SC, HQ support lag 1.

Table-2: VAR Lag Order Selection

VAR Lag Order Selection Criteria
Endogenous variables: TE_ON_VILL_SMALL_INDUSTRIES GSDP
Exogenous variables: C

Sample: 1 18
Included observations: 17

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-451.9374	NA	5.35e+20	53.40439	53.50242	53.41414
1	-414.1363	62.26052*	1.01e+19*	49.42780*	49.72188*	49.45703*

* indicates lag order selected by the criterion
LR: sequential modified LR test statistic (each test at 5% level)
FPE: Final prediction error
AIC: Akaike information criterion
SC: Schwarz information criterion
HQ: Hannan-Quinn information criterion

5.(iii) Granger Causality:

Here, the analysis consists of Granger causality test which is based on the fact that future cannot be a reason of the past; however, past can cause present or future. As the macroeconomic aggregate GSDP of a state is a reflector of its economic growth, so we take GSDP as the dependent variable in our analysis. The variables used in the analysis are:

GSDP=Gross State Domestic Product(dependent variable)

EXP. On vill. & small Ind.= Expenditure on village and small industries (independent variable)

As per our objective of the study we formulate the null hypothesis and will be tested at 5% level of significance. Since the appropriate lag is 1, we use lag 1for the pairwise Granger Causality test between GSDP and public expenditure on village and small industries.

Table-3: Granger Causality Test

Pairwise Granger Causality Tests
Date: 10/29/19   Time: 02:04
Sample: 1 18
Lags: 1

Null Hypothesis:	Obs	F-Statistic	Prob.
GSDP does not Granger Cause TE_ON_VILL_SMALL_INDUSTRIES	17	7.15177	0.0181
TE_ON_VILL_SMALL_INDUSTRIES does not Granger Cause GSDP		1.25770	0.2810

The causality test indicates that GSDP influences expenditure on village and small industries which supports the Wagner's 'Law of Increasing State Activities' which states that economic growth is the fundamental determinant of public expenditure(1883).

6. CONCLUSION:

The study has analyzed the trend and composition of public expenditure on village and small industries in Assam and also has examined the relationship between public expenditure on that particular sector and economic growth of the state. The Granger Causality Test show that the GSDP influence the expenditure on the village and small industries. Thus, the study is in favor of economic growth so that the government can spend on that particular sector as much as possible and support the Wagner approach. Taking into consideration all these issues related to the village and small industries, a policy reform is important to address almost all aspects associated with this significant sector. All these require a huge amount of expenditure on the part of the government and it will certainly aggrandize the economy of the state.

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