

Public Expenditure:-

Public expenditure is that expenditure incurred by public authorities (i.e. Central, State and Local Governments) to satisfy those common wants which the people in their individual capacity was unable to satisfy efficiently.

For example, expenditure incurred by the government on education, health, public works, maintenance of law and order etc.

Types of Public Expenditure

1. Revenue Expenditure:-

Revenue expenditure is that expenditure which does not result in creation of an asset. These expenditure are of recurring nature. It include all ~~ex~~ current expenditure on administration, defence and public commercial undertakings such as railways, post and telegraphs and grant-in-aid to the states. They are also called current or non-development expenditure.

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2. Capital Expenditure:-

Capital expenditure is that expenditure which results ~~is~~ in creation of an permanent assets. These expenditure are of non-recurring nature. They contribute to increased productive capacity of the economy. They are also called development expenditure. Expenditure on acquisition of assets, land and

buildings, machinery, equipment are examples of capital expenditure

Difference between Capital and Revenue Expenditure

Refer to page no. 180 of your book.

3. Development Expenditure:-

It refers to that expenditure which is incurred on economic and social development of the country. Expenditure on the development of transport and communication, etc. are included in this group.

4. Non-development Expenditure:-

It is that expenditure which does not promote economic development such as expenditure on administrative services like police, defence, administration of justice, general administration etc.

5. Productive Expenditure:-

Productive expenditures are those expenditures which help in improving the productive capacity of the economy. These expenditure may take form of physical assets like machinery, facilities as well as human capital like education, training, health, etc.

6. Unproductive Expenditure:- Unproductive

expenditures are those expenditures which do not add to the productive efficiency of the economy directly. They are in the nature of consumption. Expenditure on administration, defence, justice, maintenance of law and order are considered unproductive.

Reasons for the Growth of Public Expenditure

The modern state is a welfare state.

It aims at promoting the economic, political and social well-being of its citizens. For this, it has to undertake many functions. To perform these functions, government has to spend a lot of money. This can be explained with the help of Wagner's law of state increasing activities. Wagner maintained that there is a continuous increase in the functions of state.

New functions are continually being undertaken and old functions are being performed more efficiently on a larger scale. Hence, more and more public expenditure is done to perform these activities.

We shall discuss the causes responsible for the tendency of increasing volume of expenditure under the following three heads:

1. Political Causes:-

(a) Growth of Democracy:-

The recent growth of democracy and

Socialism everywhere in the world has caused public expenditure to increase very much. Expenditure on elections and by-elections is increasing. Ruling party has to fulfil its promises and launch new programmes to persuade public opinion in its favour. This also requires increasing state expenses in order to provide new amenities and opportunities to the public at large.

(b) Increase in Defence Expenditure:-

International political situation is uncertain and insecure. People are afraid of war. Hence, every nation must be strong enough to protect itself to the extent possible for it. This has led to the increase in defence expenditure.

2. Social Causes:-

(a) Population Growth:-

Population has been on increase in almost all the countries of the world. With the increase in population, the responsibilities of the state also increase which consequently leads to increase in public expenditure.

(b) Social Services:-

The generalised social services, e.g. education, public health, water supply and sanitation facilities, etc., which are considered as

the duty of the state has been increasing. All this have led to growth of public expenditure.

(c) Social Security Measures:-

Modern states are welfare states. Government is now always eager to raise the standard of living of people in lower income groups. They are spending huge amounts for providing benefits such as old-age pensions, sickness benefits, accident benefits, free education and medical services to industrial workers etc.

3 Economic Causes

(a) Rise in Prices:- After the second World War, there has been a gradual increase in the price level in almost every country of the world and the governments have to spend more money for same amount of goods and services that they desire.

(b) Growth of Public Sector:-

The public sector has been increasing in capitalist and mixed economies which has led to an increase in public expenditure.

(c) Economic Assistance to Private Sector:-

States (government) also gives economic assistance to various industries which have undertaken the programmes of planned development. This has also increased the public expenditure to a great extent.

(d) Development Programmes:-

The main reason for recent rise in public expenditure has been expansion in development activities like development of infrastructure, development of roads and railways, construction of canals, production of energy etc.

(e) Growing Trend of Urbanisation:-

With the spread of urbanisation, public expenditure has increased in modern times. Urbanisation has led to increase in government expenditure on civil administration, education, public health, water supply, parks etc.

Objectives of Public Expenditure

Public expenditure influences the entire economy. It has a positive role to play to achieve the following goals:-

- (i) To make provision of collective wants to maximise social and economic welfare
- (ii) To control the depressionary tendency in the market economy and to sustain the level of aggregate demand in the economy.
- (iii) To increase the speed of economic development by constructing the infrastructure of the economy.
- (iv) To reduce inequalities of income and wealth in an economy.

Role / Significance of Public Expenditure in Economic Development

(1) Generation of Employment:-

Public expenditure on economic and social infrastructure provides larger employment opportunities and raises the productive capacity of the economy.

(2) Control of Monopoly:-

To increase the production of certain essential commodities and end private monopolies in various spheres, the state starts public enterprises.

(3) Development of Heavy and Basic Goods:-

Public expenditure on the establishment of heavy and basic goods industries in the initial periods increases the growth rate of the economy.

(4) Reduction in inequalities of Income and Wealth.

Public expenditure tends to lessen inequalities of income and wealth through its welfare measures like free education, social security schemes like old-age pension, unemployment allowance, etc.

(5) Cheap Credit Facilities:-

Public helps in helping in encouraging private enterprises by establishing state-owned financial and banking institutions to provide cheap credit to them.

(6) Bringing Regional Balance:-

Public expenditure helps in bringing about regional balance in the economy by diversifying industries in backward and less developed areas of the country. Financial assistance may be provided to those producers who establish industries in the backward regions of the country.

With this, I am ending my topic here.
Answer the following questions:-

1. State two objectives of Public Expenditure.
2. What is Productive Expenditure?
3. Discuss any five reasons for the growth of public expenditure in India.
4. Define public expenditure. Explain two ways by which it promotes economic development.

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