

16

# Public Expenditure

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INTRODUCTION

CAUSES FOR THE INCREASING TREND IN PUBLIC EXPENDITURE

CANONS OF PUBLIC EXPENDITURE

SIGNIFICANCE OF PUBLIC EXPENDITURE

QUESTIONS

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## INTRODUCTION:

Public expenditure refers to the expenditure incurred by the government to maintain the economy and maintain itself. It is incurred to satisfy collective social wants. In the nineteenth century, most of the economies followed the policy of laissez-faire that is the policy of non-intervention. The role of government was nominal and hence public expenditure was not given much importance. However, in the twentieth century the role of state had changed from that of a police state to that of a welfare state. Due to this public expenditure has been increasing rapidly in all modern states.

Public expenditure is an important socio-economic tool in the hands of the government. It helps the government to achieve a variety of objectives like promotion of social welfare, control of depression, accelerating growth and development etc. Public expenditure in modern times is very much essential to develop infrastructure, to generate employment and for providing public services to ensure social equity. It influences the economy in a number of ways by influencing production and distribution of goods and services. Public expenditure has increased tremendously in all countries in recent times. A number of factors are responsible for this increasing trend. They can be analysed as follows:

## CAUSES FOR THE INCREASING TREND IN PUBLIC EXPENDITURE:

Public expenditure has increased significantly in all modern economies. The main causes attributed this increasing trend are

- (1) **The Concept of Welfare State:** The concept of police state was replaced by the concept of welfare state in the 20th century. Modern states are providing various services to the people to improve general welfare. Public expenditure as a result continues to increase.
- (2) **Rapid Growth of Population:** In many countries like India population is growing at a faster rate. For e.g. in India in 1951 the population was 36 crores. By 2001 it has increased to 102 crores. This increase in population necessitates a higher level



of public expenditure. More expenditure has to be incurred on education, health services, housing etc.

- 3) **Rise in National Income and Per Capita Income:** Both in many countries. Increased income leads to increased expenditure.
- 4) **Wagner's Law of Expenditure:** Adolf Wagner, a German economist proposed this law of expenditure. According to him modern states while performing old functions, undertake new functions. The state aims at promoting social welfare by providing education, health facilities, transport, communication etc. This leads to increase in public expenditure. This reason given by Wagner came to be known as Wagner's law of expenditure.
- 5) **Defence Expenditure:** Defence expenditure of all countries has increased over a period of time. War and threats of war force the governments to increase their defence expenditure year after year. The fear of foreign aggression is aggravated by the possession of nuclear weapons by some countries. This has made increased defence expenditure a necessary evil.
- 6) **Inflation:** The continuous rise in the price level forces the government to spend more and more while providing goods and services to the people. In order to protect the real income of the people, the government has to provide more allowances to its employees which increases the expenditure incurred by the government.
- 7) **Urbanisation:** The urban population is increasing in the case of developing countries like India. More population in the urban areas necessitates the provision of various facilities like transport, communication, housing etc. For all this the government has to spend more.
- 8) **Development Projects:** Many countries adopt economic planning to accelerate economic growth under the planning process, many developmental projects like infrastructural development, development of basic and heavy industries etc. have been undertaken. These projects are generally



developed by the public sector and hence the rise in public expenditure.

**(9) Other Reasons:**

- (a) Modern governments incur huge public debts. Servicing of public debt is one of the main reasons for ever-rising public expenditure in countries like India. Various types of subsidies are provided by the modern governments to promote the consumption of certain goods and services and to help poorer sections of the society. For e.g. food subsidy, fertilizer subsidy etc. Subsidies, at present constitute a major item of expenditure of the government.
- (b) Some countries like India have a democratic system. Under this system elections have to be held regularly for the Parliament, State legislatures, local bodies etc. Election is a costly affair and it requires a huge administrative machinery.
- (c) Huge expenditure is incurred by government to provide relief to people affected by natural calamities, terrorist attacks etc.
- (d) Providing security to political heads and government officials accounts for a major item of expenditure nowadays. All these factors add to government expenditure.

**CANONS OF PUBLIC EXPENDITURE:**

While incurring public expenditure the government should follow certain fundamental rules or principles which are called as canons of public expenditure. Some of the important canons are:

- (1) **Canon of Benefit:** According to this canon public expenditure should always aim at general welfare of the people. It should not be incurred for the benefit of a particular section or community.
- (2) **Canon of Economy:** This canon suggests that public expenditure has to be incurred very carefully and economically. This implies that wasteful public expenditure



should be avoided. It should be incurred productively and efficiently so that social welfare can be maximised.

(3) **Canon of Sanction:** This canon implies that public expenditure should be incurred after getting the prior permission from the authority concerned. This is required to ensure proper use of the funds and also to ensure economy.

(4) **Canon of Surplus:** According to this canon the government should avoid a deficit budget. The budget of the government will be an ideal one when the revenue is more than its expenditure. Hence this canon suggests that there should be reasonable saving on the part of the government.

Apart from the above four main canons, other canons have also been suggested by economists. For e.g. canon of elasticity implies that public expenditure should be flexible to suit the needs of the economy. Canon of productivity states that public expenditure should be incurred in such a way that it can promote production of goods and services and accelerate economic growth. Thus canons of public expenditure provide the necessary guidelines for the government.

### SIGNIFICANCE OF PUBLIC EXPENDITURE:

Public expenditure is an important component of public finance. It helps the government to achieve many socio-economic objectives. It is very valuable for the governments of both developed and developing countries. Its significance is as follows:

- (1) Economic growth and development can be accelerated through proper resource allocation and utilization.
- (2) Infrastructure development can be improved.
- (3) Balanced regional development becomes possible.
- (4) Poverty reduction, employment generation and reduction of income inequalities can be targeted.
- (5) Promotion of educational and health facilities contribute to improvement of labour productivity and hence more production.

The role of public expenditure in developed countries is different from its role in developing countries. In the case of



developed nations, public expenditure aims at controlling trade cycles, maintaining stability and full employment. In capitalist countries like USA, UK etc. governments spend a huge amount on social security system to promote the welfare of the people. In developing countries like India the role of public expenditure is to accelerate economic growth and development. The size of population is huge in India whereas the resources are limited. Hence the government has to use the resources optimally. Many problems like poverty, unemployment, inequality, etc. need to be addressed. To protect the weaker sections the following measures are adopted in India:

- (1) **Social security measures:** This includes old age pension, unemployment allowance and sickness benefits. This helps the poor to get the basic things in life.
- (2) **Support to low income group:** The low income groups are supported through the public distribution system, subsidized housing, health and educational facilities. Provision of scholarships and free ships, reservation of seats in educational institutions and government organisations enable the weaker section to get equal rights.
- (3) **Social insurance programmes:** Various insurance programmes like Universal Health Insurance Scheme, Aam Admi Bima Yojana etc. provide insurance cover for life, accidents, etc. at a low premium or free.

Thus public expenditure through these measures aims at reducing inequality and achieve various objectives of fiscal policy.

## QUESTIONS

- (1) **Define the following:**
  - (a) Public expenditure. *(BAF, Oct. 17)*
  - (b) Revenue expenditure.
  - (c) Capital expenditure.
  - (d) Transfer expenditure.
  - (e) Non-transfer expenditure.



**Fill in the blanks:**

- (a) Public expenditure refers to the \_\_\_\_\_ expenditure.  
 (b) Revenue expenditure is \_\_\_\_\_ in nature.  
 (c) Expenditure on infrastructure is an example of \_\_\_\_\_ expenditure.  
 (d) Old age pension is an example of \_\_\_\_\_ expenditure.

[Ans.: (a) government (b) recurring (c) capital (d) transfer]

**State whether the following statements are true or false:**

- (a) Capital expenditure adds to the assets of the country.  
 (b) War expenditure is productive in nature.  
 (c) Revenue expenditure should be greater than capital expenditure.  
 (d) Public expenditure is ever increasing in all countries.  
 (e) Expenditure incurred on education is productive in nature.  
 (f) All modern states are welfare states.  
 (g) Public expenditure refers to the expenditure of an individual. (BFM, April 18)

[Ans.: (a) True (b) False (c) False (d) True (e) True (f) True (g) False]

**Match the following:**

(A)	(B)
(1) Payment of interest	(a) Transfer expenditure
(2) Unemployment allowances	(b) Productive expenditure
(3) Expenditure on education	(c) Rise in public expenditure
(4) Urbanisation	(d) Revenue expenditure

Ans.: (1 - d; 2 - a; 3 - b, 4 - c)

Define public expenditure. What are the causes for the rapid growth of public expenditure?

Explain the different types of public expenditure.

What is the significance of public expenditure?

Enumerate the significance of public expenditure. (BBI, April 18)

**Write short notes on:**

- (a) Canons of public expenditure.  
 (b) Types of public expenditure.  
 (c) Significance of public expenditure