

Date:13.08.2020

**PUBLIC FINANCE – I**  
**(PUBLIC EXPENDITURE)**

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# **PUBLIC EXPENDITURE**

## **Meaning**

•Public expenditure is the expenditure incurred by public authorities, Central, State & Local governments, either for the satisfaction of collective needs of citizens or for promoting their economic & social welfare.

## **Classification of Public Expenditure:**

- 1. Revenue expenditure:** This means expenditure on civil administration, defence and welfare schemes, etc.
- 2. Capital expenditure:** This is incurred once and all. It is non-recurring expenditure. Expenditure on multipurpose projects, big factories like steel and cement, money spent on machinery, building and land are all [capital expenditure](#).
- 3. Development expenditure:** This is made on irrigational development, industrial development, education and health etc.
- 4. Non-development expenditure:** This is the money spent on civil administration, police force, defence forces, judiciary, etc.

## Causes of Increase in Public Expenditure

- Increase in backward area and population(பின்தங்கிய பகுதி மற்றும் மக்கள் தொகை அதிகரிப்பு)
- Growth of state functions(மாநில செயல்பாடுகளின் வளர்ச்சி)
- Higher price-level and rising cost of public services(அதிக விலை நிலை மற்றும் பொது சேவைகளின் உயரும் செலவு)
- Increase in national wealth(தேசிய செல்வத்தில் அதிகரிப்பு)
- Increased ability to tax(வரி செலுத்தும் திறன் அதிகரித்தது)
- War and prevention of war (defence)(போர் மற்றும் போர் தடுப்பு (பாதுகாப்பு))
- Provision of public utility services(பொது பயன்பாட்டு சேவைகளை வழங்குதல்)
- Expansion in social services(சமூக சேவைகளில் விரிவாக்கம்)
- Technological changes call for larger or new production in public sector(தொழில்நுட்ப மாற்றங்கள் பொதுத்துறையில் பெரிய அல்லது புதிய உற்பத்திக்கு அழைப்பு விடுகின்றன)
- Global environmental factors, including, IT, import & export requirements, international political changes, and terrorism(தகவல் தொழில்நுட்பம், இறக்குமதி மற்றும் ஏற்றுமதி தேவைகள், சர்வதேச அரசியல் மாற்றங்கள் மற்றும் பயங்கரவாதம் உள்ளிட்ட உலகளாவிய சுற்றுச்சூழல் காரணிகள்)
- Expansion of public sector(பொதுத்துறை விரிவாக்கம்)
- Defective financial and civil administration (including corruption, red tapism, and malicious bureaucracy) (குறைபாடுள்ள நிதி மற்றும் சிவில் நிர்வாகம் (ஊழல், சிவப்பு தட்டச்சு மற்றும் தீங்கிழைக்கும் அதிகாரத்துவம் உட்பட))
- Political and social factors (அரசியல் மற்றும் சமூக காரணிகள்)
- Economic development (esp. for developing countries) (பொருளாதார வளர்ச்சி (எஸ்பி. வளரும் நாடுகளுக்கு))

# Effects of Public Expenditure on production, employment and distribution

## Effects of Public Expenditure

Public expenditure is beneficial since it influences the economy in many directions. The effects of public expenditure are always beneficial. It increases the capacity of the people to produce output efficiently. It influences the production not only directly but also indirectly. It increases the community's productive power. It promotes social and economic equality and finally increases income, employment and welfare.

### 1. Effects on production

Expenditure on defence becomes productive and it becomes a protective expenditure. Development of infrastructures facilitates production and thereby helps to increase [national income](#) and in turn per capita income. Expenditures on social services like free education, health and medical aid, which increase the capacity of the people to work and save and productive power.

### 2. Effects on distribution

Public expenditure is an ideal medium to remove economic inequalities in society. The government should tax more the rich. The amount so collected should be spent on free education, medical aid, cheap food, subsidized houses, old age pension, etc. This process of public expenditure will bring about redistribution of national income in favour of the poor.

### 3. Effects on income and employment

Public expenditure affects the level of income and employment in the country by removing the widespread unemployment. Investing more on public works like roads, hydro-electric generating works, etc. will create a multiplier effect on the economy and thereby increases the income and employment. This results in increased consumption and in turn develops the consumption goods industries and capital goods industries.

Thus, public expenditure plays a vital role in the economic development of a country. It also creates necessary environment for the expansion of private enterprise and initiative.

## **Measures to reduce Public Expenditure in India.**

- A drastic reduction in expenditure on major subsidies such as food, fertilisers, exports, electricity to curtail public expenditure. A huge sum of money equal to Rs. 20,000 crores are spent on major subsidies on food, fertilisers, export promotion by the central government. Without a drastic cut in subsidies over time it is difficult to reduce public expenditure to an appreciable degree.
- Die huge sum of money is spent by the government on LTC (Leave Travelling Concessions), bonus, leave encashment etc. A reduction in expenditure on these is desirable if the government is determined to cut public expenditure.
- Another useful measure to cut public expenditure is to reduce interest payments on past debt. In India, interest payments account for about 40 per cent of expenditure on revenue account of the central government. In our view, funds raised through disinvestment in the public sector should be used to retire a part of old public debt rather than financing current expenditure. Retirement of public debt quickly will reduce burden of interest payments in future.
- Budgetary support to public sector enterprises other than infrastructure projects should be substantially reduced. Further, public sector enterprises should be asked to raise funds from the market and banks.
- Austerity measures should be adopted to curtail unnecessary expenditure in all government departments.

































