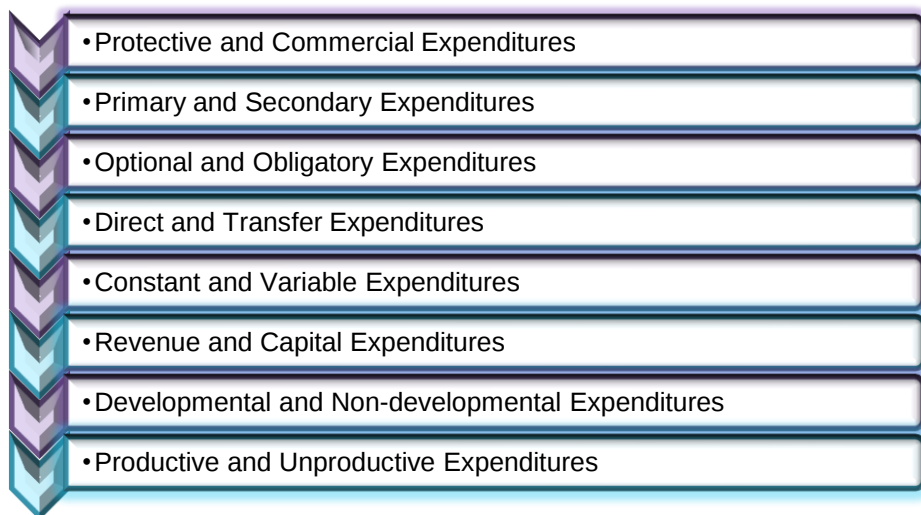


Public Expenditure

Meaning of Public Expenditure

Public expenditure is the expenditure incurred by the government of any nation. Any government incurs a large amount of expenditure for the welfare of the nation, for activities such as the development of roadways, education, irrigation systems and to maintain law and order.

Types of Public Expenditure



- **Protective and Commercial Expenditures**
The expenditure incurred to protect the country from foreign aggression and to maintain law and order within the country is called protective expenditure. It is incurred by the government on defence, police and jails.
The expenditure incurred on commercial activities such as industrial exhibitions and bounties is called commercial expenditure.
- **Primary and Secondary Expenditures**
Primary expenditure includes the expenditure on law and order, civil administration and debt services. Secondary expenditure includes the expenditure on health, education, unemployment, transport, communication and poor relief.
- **Optional and Obligatory Expenditures**
Optional expenditure is the expenditure the government may or may not incur, such as the expenditure on health, education and poor relief.
Obligatory expenditure is the expenditure the state must incur such as the expenditure on defence and other contractual payments.
- **Direct and Transfer Expenditures**
If the government spends a given amount for buying a part of the current national output, it is called direct expenditure. It includes the expenditure on purchase of defence goods and capital goods for industrial expansion.

Any government expenditure which does not correspond to any productive factor service is called transfer expenditure. It includes the expenditure incurred for the payments of old-age pensions and sickness benefits.

- **Constant and Variable Expenditures**

Constant type of expenditure does not depend on the extent of use by the people. It includes the expenditure on defence which is incurred irrespective of the number of people using the services.

Variable type of expenditure increases with every increase in the use of public services by the people. It includes the expenditure on postal and telephone services.

- **Revenue and Capital Expenditures**

Revenue expenditure is incurred to run government departments. It does not create any capital assets. Government funds decrease, but their liability does not reduce. It does not help in promoting economic development. It is incurred on defence forces, public health and education.

Capital expenditure is incurred to create capital assets. It leads to the creation of capital stock. It reduces the government funds and their liability. It promotes the economic development of the nation. It is incurred on building dams, roadways and railways.

- **Developmental and Non-developmental Expenditures**

Developmental expenditure refers to the expenditure which is incurred on economic and social development projects such as transport and communication.

Non-developmental expenditure refers to the expenditure which is incurred on administrative services such as police and defence.

- **Productive and Unproductive Expenditures**

Productive expenditure is the expenditure which increases the production of goods and services in a nation. These expenditures constitute physical assets (such as machinery) and human capital (such as education and health).

Unproductive expenditure is the expenditure which does not increase the productivity of a nation. These expenditures constitute activities such as maintenance of law and order in the nation.

Reasons for the Growth of Public Expenditure

- **Political and social causes responsible for the growth of public expenditure:**

- Public expenditure tends to increase with the growth of democracy and socialism everywhere in the world.
- Public expenditure tends to increase with the expansion of administrative machinery, maximisation of social and economic welfare, providing of salary and other benefits such as old-age pension, sickness benefits, accident benefits and free education to industrial workers.
- Public expenditure tends to increase with the huge interest payments on market borrowings.

- **Economic causes responsible for an increase in the volume of public expenditure:**

- **Rise in prices:** There was consistent increase in price levels after World War II. Hence, the government had to spend more money to acquire the desired goods and services in the economy. They also needed funds to increase the salary of government employees.

- Rise in urbanisation: Because of an increase in urbanisation in recent times, the government has to spend more money on civil administration, education, water supply and parks.

Objectives of Public Expenditure

Public expenditure is incurred to maximise social and economic welfare of the economy. It is incurred to curb the inequalities of income and wealth in the economy.

Role of Public Expenditure in Economic Development

- The public expenditure on infrastructural development improves the production efficiency of industries and increases employment opportunities.
- It encourages private enterprises by initialising state-owned financial and banking institutions to provide cheap credits.
- It helps in increasing the production of certain essential commodities to end private monopolies and by helping the state start public enterprises.
- It reduces income inequalities through welfare measures such as education and medical facilities.
- The aggregate demand increases with an increase in the public expenditure, thereby the producer receives an incentive to increase the production level. Because of excess demand for these products in the market, the stocks of their goods exhaust completely. Hence, the producers increase the production capacity to maintain the stock. This creates more demand for capital and labour, causing an increase in the level of production. Thus, it leads to an increase in the level of employment within an economy.

