

UNIT II

MEANING OF PUBLIC EXPENDITURE

Public expenditure is the expenditure incurred by the public authorities-central, state and local governments either for the satisfaction of collective needs of the citizens or for promoting their economic and social welfare. The volume of the public expenditure has been increasing in almost all countries in the world.

SCOPE OR IMPORTANCE OF PUBLIC EXPENDITURE

The scope of public expenditure is concerned it is possible to divide the main schools into two classes.

- a. One school restrict the function of the government.
- b. Other school is more generally in favour of increase in the function of the government.

Adam Smith tells that, the sovereign has three duties:

- a. Protecting the society.
- b. Administration of justice.
- c. Erecting and maintaining certain public works.

Modern economists are view that, it is wrong to believe that private individuals spend money better than their governments does.

To-day the popular cry is for State intervention in almost every field, Government should do everything. Prof. A. Musgrave, advocated public expenditure since a government is forced to do many activities such as to secure a reallocation of resources, redistributive activities, stabilising activities and commercial activities. Thus, public expenditure is increasing of both developed and underdeveloped countries.

PUBLIC AND PRIVATE EXPENDITURE

Public Expenditure are carried out by national and local government and public sector enterprises.

Private Expenditure is carried out by individuals and businesses that are not government owned. In Favor of private spending. Individuals are best placed to choose how to spend their money.

SIMILIARITES BETWEEN PUBLIC AND PRIVATE EXPENDITURE

- a. Objectives - Maximum possible returns with the minimum possible expenditure.
- b. Flexibility - more in public expenditure.
- c. Borrowings – revenue is less expenditure or scarcity.

DISSIMILIARITIES OR DIFFERENCE BETWEEN PUBLIC AND PRIVATE EXPENDITURE

| BASIS | PUBLIC EXPENDITURE | PRIVATE EXPENDITURE |
|-------------|--|---|
| Objective | It is the welfare of the society or Country. | It is limited to the welfare of his family. |
| Adjustments | To estimate of expenditure and then | To adjust his expenditure according his |

| | | |
|-------------|---|---|
| | Devise methods of raising the required revenue through various means. | income. |
| Time | Long term phenomena. | Short term phenomena. |
| Benefit | Measurement benefits are not possible in public expenditure. | Benefits measured with the help of MU of goods and services purchased. (MC=MR). |
| Flexibility | It is more. | Very less. |
| Motivation | Pubic welfare. | Profit motive. |
| Effects | More effects. | Less effects. |

ROLE OF PUBLIC EXPENDITURE IN ECONOMIC DEVELOPMENT

The role of public expenditure in economic development should be considered in the following terms:

- A. Activities to secure a reallocation of resources.
- B. Redistributive activities.
- C. Stabilising activities.
- D. Commercial activities.
- E. Economic development.
 - a. Development of basic and capital goods industries.
 - b. Creation of social overheads.
 - c. For attaining self-sustained growth.
- F. Removal of inequality.
- G. Balance regional development.

CLASSIFICATION OF PUBLIC EXPENDITURE

The various classification of public expenditure are as follows:

- A. On the basis of benefit:
 - a. Public expenditure benefiting the entire community.
 - b. Public expenditure benefiting certain people.
 - c. Public expenditure benefiting certain people and the entire community.
 - d. Expenditure that benefit particular groups.
- B. On the basis of revenue or Nicholson classification:
 - a. Expenditure without direct return or revenue – poor relief
 - b. Expenditure without direct return, but with direct benefit to revenue – Education.
 - c. Expenditure with partial direct return – subsidized railway service.
 - d. Expenditure with full return or even profit – gas service, post office.
- C. On the basis function or Adam Smith's classification:
 - a. Protective expenditure - defence police.
 - b. Commercial expenditure - industrial exhibition.
 - c. Development expenditure – roads and railways.
- D. On the basis of wants and demand or J.S.Mill classification:
 - a. Optional expenditure.
 - b. Obligatory or necessary.
- E. On the basis of necessary or Roscher's classification:
 - a. Necessary expenditure.
 - b. Useful expenditure.

- c. Superfluous or ornamental expenditure.
- F. On the basis of importance or Shirras's classification:
 - a. Primary expenditure – defence.
 - b. Secondary - public health.
- G. Dalton's classification:
 - a. Grants.
 - b. Purchase price.
- H. Pigou's classification:
 - a. Transfer expenditure.
 - b. Real or Non-transfer expenditure.
- I. J.K.Metha's classification:
 - a. Constant Expenditure.
 - b. Variable expenditure.
- J. Economic classification
 - a. Capital account.
 - b. Current account.

CANONS OF PUBLIC EXPENDITURE

Prof. Shirras classify the various canons of public expenditure, which are as follows:

- a. Canon of Benefit.
- b. Canon of Economy.
- c. Canon of Sanction.
- d. Canon of Surplus
- e. Canon of Elasticity.
- f. Canon of Productivity.
- g. Canon of Equitable Distribution.

CAUSES OF PUBLIC EXPENDITURE

There are various reasons for increasing of public expenditure are:

- a. Population Growth.
- b. Urbanisation.
- c. Increasing prices.
- d. War and security.
- e. Social Functions of the country.
- f. Industrial development.
- g. Agricultural development.
- h. Economic development.
- i. Development of science and technology.
- j. World relations.
- k. Public debt.
- l. Growth and social justice.
- m. Nationalisation of industries and trade.
- n. Difficulties in financial administration.
- o. Taxation.

EFFECTS OF PUBLIC EXPENDITURE

The effects of public expenditure can be studied under three heads. They are as follows:

- A. Effects of public expenditure on production.
 - a. Effects on ability to work, save and invest.
 - b. Effects on willingness to work, save and invest.
 - c. Effects on diversion of economic resources.
- B. Effects of public expenditure on distribution.
 - a. Cash grants.
 - b. Free or cheap goods and services.
- C. Effects of public expenditure on Employment.
 - a. Unemployment- programme.

CONTROL OF PUBLIC EXPENDITURE

The various methods of controlling public expenditure are:

- A. Budget.
- B. Accounting and auditing – (CAG) – Controller and Auditor General.
- C. Publication of financial report.
- D. Proper permission (Consolidated Fund).
- E. Public Accounts Committee.
- F. Estimate Committee.
- G. Economy Committee.
- H. Organisation and Methods Division.
- I. Central Economy Board.