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PUBLIC EXPENDITURE

Mr. Kalee Prasanna Pattanayak



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Definition

Public expenditure can be defined as, "The expenditure incurred by public authorities like central, state and local governments to satisfy the collective social wants of the people is known as public expenditure."

It refers to Government expenditure i.e. Government spending. It is incurred by Central, State and Local governments of a country.

Public expenditure is spending made by the government of a country on collective needs and wants such as pension, provision, infrastructure, etc



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Causes of growth of public expenditure

'Defence Expenditure due to modernization of defence equipment by navy, army and air force to prepare the country for war or for prevention causes-for-growth-of-public-expenditure.

Population growth: It increases with the increase in population, more of investment is required to be done by government on law and order, education, infrastructure, etc. investment in different fields depending on the different age group is required.



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Welfare activities- welfare, mid-day meals, pension provisions etc.

Provision of public and utility services- provision of basic public goods given by government (their maintenance and installation) such as transportation.

Accelerating economic growth- in order to raise the standard of living of the people.

Price rise- higher price level compels government to spend increased amount on purchase of goods and services.

Increase in public revenue- with rise in public revenue government is bound to increase the public expenditure.

International Obligation- maintenance of socio economic obligation, cultural exchange etc. (these are indirect expenses of government)



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Wars and social crises - fighting amongst people and communities, severe and prolonged drought or unemployment, earthquake, hurricanes or tornadoes may lead to increase in public expenditure of a country. This is because it will involve governments to re-plan and allocate resources to finance the reconstruction.

Creation of super national organizations - E.g. the United Nations, NATO, European community and other multinational organizations that are responsible for the provision of public goods and services on an international basis, have to be financed out of funds subscribed by member states, thereby adding to their public expenditure.

Foreign Aid - Acceptance by the richer industrialised countries of their responsibility to help the poor developing countries has channelled some of the increased public expenditure of the donor country into foreign aid programmes.

Inflation - This is the general rise in price level of goods and services. It increases the cost of all activities of the public sector and thus a major factor in growth in money terms of public expenditure.



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Classification of Public Expenditure

Functional Classification : The government performs various functions like defence, social welfare, agriculture, infrastructure and industrial development

Revenue and Capital Expenditure :

Revenue expenditure are current or consumption expenditures incurred on civil administration, defence forces, public health and education, maintenance of government machinery.

On the other hand, capital expenditures are incurred on building durable assets, like highways, multipurpose dams, irrigation projects, buying machinery and equipment



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Transfer and Non-Transfer Expenditure :

Transfer expenditure relates to the expenditure against which there is no corresponding return.

National Old Age Pension Schemes, Interest payments, Subsidies, Unemployment allowances, Welfare benefits to weaker sections, etc.

The non-transfer expenditure includes development as well as non-development expenditure that results in creation of output directly or indirectly.

Economic infrastructure such as power, transport, irrigation, etc.

Social infrastructure such as education, health and family welfare.

Internal law and order and defence.

Public administration, etc.



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Productive and Unproductive Expenditure

Expenditure on infrastructure development, public enterprises or development of agriculture increase productive capacity in the economy and bring income to the government. Thus they are classified as productive expenditure.

Expenditures in the nature of consumption such as defence, interest payments, expenditure on law and order, public administration, do not create any productive asset which can bring income or returns to the government. Such expenses are classified as unproductive expenditures.



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Development and Non-Development Expenditure

All expenditures that promote economic growth and development are termed as development expenditure. These are the same as productive expenditure.

Unproductive expenditures are termed as non development expenditures.



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Grants and Purchase Price

Grants are those payments made by a public authority for which there may not be any quid-pro-quo, i.e., there will be no receipt of goods or services. For example, old age pension, unemployment benefits, subsidies, social insurance, etc. Grants are transfer expenditures.

Purchase prices are expenditures for which the government receives goods and services in return. For example, salaries and wages to government employees and purchase of consumption and capital goods.



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Principles of public expenditure

Principle of maximum social benefits

Principle of economy, i.e., wasteful expenditure should be avoided

Canon of sanction, i.e., authorized expenditure

Principle of balanced budget

Canon of elasticity, i.e., fairly flexible

Avoidance of unhealthy effects on production and distribution



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Principle of maximum social benefits

The principle of maximum social benefit, as canons of public expenditure, implies that the Government should plan its expenditure in a manner as to promote the greatest good of the greatest number. Public expenditure refers to expenses incurred by public authorities central, state and local on its various activities. The activities of public authorities include the primary activities as the civil administration and defense of the country etc.



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Principle of economy, i.e., wasteful expenditure should be avoided

The canon of economy , as canons of public expenditure, suggests that the State should be economical in spending. It implies two things, Firstly; the Government should not spend more than the amount required to be spent on particular item of expenditure. Secondly, The State should spend money in such a way that might develop the productive capacity of the community as much as possible.



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Canon of sanction, i.e., authorized expenditure

What it implies is that the Government, before incurring any expenditure on any item should obtain the proper sanction and approval of the competent authority. Without its approval, the Government department cannot incur any expenditure or any expenditure beyond the specified limit.



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Principle of balanced budget

According to this canons of public expenditure, the state must avoid resort to deficit financing as far as possible. The classical economists always preferred surplus budget just like an ordinary citizen. But in modern time, balanced budget (no deficit no surplus budget) is preferred. It implies that the balanced expenditure must be balanced to public revenue.



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Canon of elasticity, i.e., fairly flexible

Flexibility must be there in public expenditure. It implies that the expenditure may be expended or contracted according to the call of the time. At a time of crisis, the expenditure should be cut down because the income of the government is expected to be short at such a time.



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Avoidance of unhealthy effects on production and distribution

It is also necessary to see that public expenditure exercises a healthy influence both on production and distribution of wealth in the community. It should stimulate productive activity so that the volume of production in the country increases and it may be possible to raise the standard of living. But this object of raising of the standard of living of the masses will be served only if wealth is fairly distributed. If the newly created wealth goes to enrich the already rich, the purpose is not served. Public expenditure should aim at toning down the inequalities of wealth distribution



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