

# [The various impacts of public expenditure economics essay](https://assignbuster.com/the-various-impacts-of-public-expenditure-economics-essay/)

[Economics](https://assignbuster.com/essay-subjects/economics/)

Public expenditure diverts economic resources into channels determined by thegovernment in accordance with national objecti4es and public policy. As a. consequence, the scale and direction of public expenditure may affect thepattern and levels of consumption of the communityvolume of productionallocation of resourcesdistribution of incomeslevels of prices and employment. These effects are discussed below:

## Consumption

Public expenditure enhances the quality of life of people by providing recreational, cultural, educational and public health facilities, such as public parks, playgrounds, libraries, educational institutions, hospitals and dispensaries and scientific, cultural andcommercial exhibitions. Consumption, after all, is the end objective of economicactivity of individuals. By promoting the level of economic activity and a more equitabledistribution of income, the state can bring about a greater sense of social and economicsecurity in the lives of individuals. The government enables them to live a fuller andricher life.

## Allocation of Resources

Public expenditure allocates resources in accordance with national priorities. Thepriorities may be defence, agricultural production and self-sufficiency in food, industrialdevelopment, generation of employment opportunities, an equitable distribution ofincome, balanced regional development, population control, a better ecological

## 10. 3 ' IMPACT OF PUBLIC EXPENDITURE

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## Allocation of Resources

Public expenditure allocates resources in accordance with national priorities. Thepriorities may be defence, agricultural production and self-sufficiency in food, industrialdevelopment, generation of employment opportunities, an equitable distribution ofincome, balanced regional development, population control, a better ecologicalbalance etc. Public expenditure in these areas is bound to raise the community'sproductive power. According to Dalton " increased public expenditure in many of thesedirections is desirable in order to bring about that distribution of the community'sresources between different uses, which will give the best results, balancing withoutbias the present and future". Changes in national priorities, from time to time, will be reflected in the pattern ofpublic expenditure. Again, resource allocation has to take into account the balancebetween present needs and future requirements. Apart from imparting a sense offairness as between generations, projects with long gestation periods can be undertakenonly by the state. Hence allocation has to keep in view the fact that market economycannot always take care of social needs. These can be taken care of only by the state.

## Production

The roles of private and the public sectors are complementary. The public sectorprovides the infrastructure, transport and communications, power, education andpublic health programmes. In the absence of goods and services provided by thegovernment sector, private sector can hardly make any meaningful contributiontowards production and development: According to Dalton, other things being equal, taxation should not adversely affect production and public expenditure should increaseit as much as possible. Public expenditure can affect (i) the ability to work, save andinvest, (ii) the desire to work, save and invest, and (iii) allocation of resources asbetween different uses. Public expenditure can influence these factors either favourablyor unfavourably. The economies of , developing countries cannot make significant progress unless theyconcentrate on development of investment goods sector. This may not result inproduction in the immediate future, as in education and health programmes, infrastructural projects and projects with long gestation periods. This would, however, certainly build up growth potential in the economy, and help take the economy to aself-generating level.

## Distribution

In Dalton's words, " other things being equal, that system of public expenditure is best, which has the strongest tendency to reduce the inequality of incomes." A system ofgrants and subsidies is equitable in the measure in which it is progressive. This leads tomaximum social benefit. An approximation to this principle would be provided by asystem of grants which would bring all incomes below a certain level to that level (say, above the poverty line), without adding anything to incomes above that level. A publicdistribution system which makes available essential commodities at subsidised prices tothe poor, will also achieve the same result. Free provision of services to all members ofthe society e. g., free health service or free education, " narrows the area of inequality". Social security measures and social insurance schemes, which are helped partly orwholly from public funds, e. g. oldage pensions, sickness and maternity benefits, unemployment relief, industrial injury compensation, widows pension etc., improvedistribution by reducing inequality of incomes.

## Economic S tabilisa tion

Business activity in an economy is usually characterised by fluctuations of a cyclicalnature. A boom in the economy may burst and lead to a depression. While duringboom, prices rise beyond the reach of common person, spelling misery. Duringdepression, employment and production levels fall drastically causing colossal damage. During depression, when employment, production and national income startdeclining, government can undertake compensatory spending. This may imply heavypublic works programmes so that employment and incomes may pick up leading toeconomic recovery. During boom, public expenditure should be strictly curtailed, leading to surplus budgets. During depression, public expenditurepolicy would lead toheavy outlays on public works; expenditure would thus be in excess of revenues, leadingto deficit budgets. Thus public expenditure, if properly planned and conscientiouslyundertaken, will have the favourable effect of raising employment, production andnational income, after pulling the economy ont of depression and thus bringing aboutereater economic stabilitv.