

The various impacts of public expenditure economics essay

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Public expenditure diverts economic resources into channels determined by the government in accordance with national objectives and public policy. As a consequence, the scale and direction of public expenditure may affect the pattern and levels of consumption of the community, volume of production, allocation of resources, distribution of incomes, levels 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 and commercial exhibitions.

Consumption, after all, is the end objective of economic activity of individuals. By promoting the level of economic activity and a more equitable distribution of income, the state can bring about a greater sense of social and economic security in the lives of individuals. The government enables them to live a fuller and richer life.

Allocation of Resources

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

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Allocation of Resources

Public expenditure allocates resources in accordance with national priorities. The priorities may be defence, agricultural production and self-sufficiency in food, industrial development, generation of employment opportunities, an equitable distribution of income, balanced regional development, population control, a better ecological balance etc. Public expenditure in these areas is bound to raise the community's productive power. According to Dalton "

increased public expenditure in many of these directions is desirable in order to bring about that distribution of the community's resources between different uses, which will give the best results, balancing without bias the present and future". Changes in national priorities, from time to time, will be reflected in the pattern of public expenditure. Again, resource allocation has to take into account the balance between present needs and future requirements. Apart from imparting a sense of fairness as between generations, projects with long gestation periods can be undertaken only by the state. Hence allocation has to keep in view the fact that market economy cannot 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 sector provides the infrastructure, transport and communications, power, education and public health programmes. In the absence of goods and services provided by the government sector, private sector can hardly make any meaningful contribution towards production and development: According to Dalton, other things being equal, taxation should not adversely affect production and public expenditure should increase it as much as possible. Public expenditure can affect (i) the ability to work, save and invest, (ii) the desire to work, save and invest, and (iii) allocation of resources as between different uses. Public expenditure can influence these factors either favourably or unfavourably. The economies of , developing countries cannot make significant progress unless they concentrate on development of investment goods sector. This may not result in production 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 a self-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 of grants and subsidies is equitable in the measure in which it is progressive. This leads to maximum social benefit. An approximation to this principle would be provided by a system 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 public distribution system which makes available essential commodities at subsidised prices to the poor, will also achieve the same result. Free provision of services to all members of the 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 or wholly from public funds, e. g. old age pensions, sickness and maternity benefits, unemployment relief, industrial injury compensation, widows pension etc., improved distribution by reducing inequality of incomes.

Economic Stabilisation

Business activity in an economy is usually characterised by fluctuations of a cyclical nature. A boom in the economy may burst and lead to a depression. While during boom, prices rise beyond the reach of common person, spelling

misery. During depression, employment and production levels fall drastically causing colossal damage. During depression, when employment, production and national income start declining, government can undertake compensatory spending. This may imply heavy public works programmes so that employment and incomes may pick up leading to economic recovery. During boom, public expenditure should be strictly curtailed, leading to surplus budgets. During depression, public expenditure policy would lead to heavy outlays on public works; expenditure would thus be in excess of revenues, leading to deficit budgets. Thus public expenditure, if properly planned and conscientiously undertaken, will have the favourable effect of raising employment, production and national income, after pulling the economy out of depression and thus bringing about greater economic stability.