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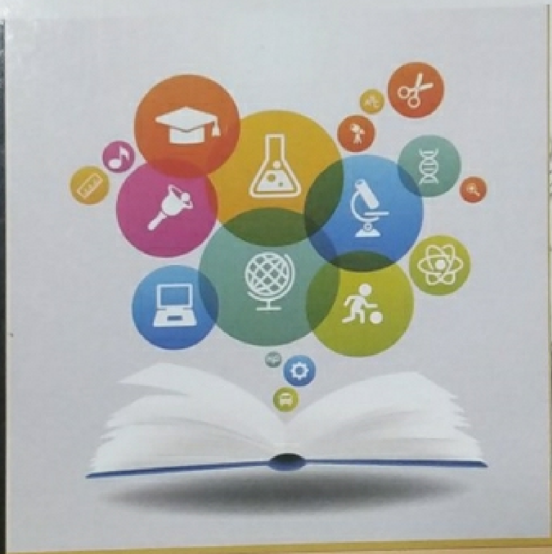

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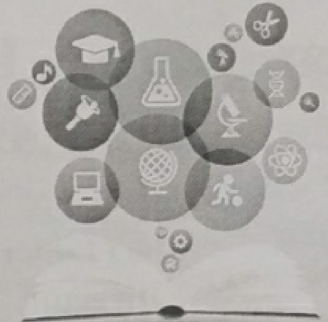

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INDEX

Public Expenditure and Economic Growth in India– An overview

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Abstract:

The purpose of this research paper is to verify the impact or effects of public expenditure on economic growth and fiscal policy of India. Public expenditure is an important instrument of monitory policy. The aim of the public spending is the allocation of scarce means for welfare of the masses.

As a modern state is know as 'welfare state', the growth of activities of the government has expanded in length and breadth. in this paper we will highlight the reasons for enormous increase in public expenditure throughout the world even in the capitalist countries where laissez-faire principle operates. Secondly the researcher is intends to study the causality between public expenditure and economic growth and factor influencing the public expenditure in the state. The researcher further intend to study the impact of public expenditure in economic development.

Key words: public expenditure, welfare , growth, economic. impact

Introduction:-

Public expenditure is spending made by the government of a country on needs and wants such as pension, provision, infrastructure, etc. Until the 19th century, public expenditure was limited as laissez faire philosophies believed that money left in private hands could bring better returns. In the 20th century, John Maynard Keynes argued the role of public expenditure in determining levels of income and distribution in the economy. Since then government expenditures has shown an increasing trend.

In the 17th and the 18th centuries public expenditure was considered as a wastage or misuse of money. Many traditional thinkers and scholars were in the opinion that government should not expend except traditional functions of spending on defence and maintaining law and order. Several theories of taxation exist in public economics. Governments at all levels need to raise revenue from a variety of sources to finance public-sector expenditures. The details of taxation are guided by two principles: who will benefit, and who can pay. Public expenditure means the expenditure on the developmental activities such as construction of dams , bridges , roadways . railway lines, air lands and any other activity related to public utility or for public use.

Scope and Significance of the Study

Growth of country and Economic development is based upon the Public Expenditure in short Public expenditure influences economic development and growth of an economy. Government expenditure is rather crucial in deciding the welfare of a particular region, It depends upon the vulnerability of the particular section or region of the society. Moreover, public expenditure or government spending is a major imputes force of leveling up economic inequality in a a particular state, as per the welfare policy of the state, government expenditure is concentrated mostly on social goods like infrastructure development like construction of bridges, roadways, railway lines and other amenities and welfare of the vulnerable sections of the society.

Fiscal or monitory instruments, particularly tax policies plays an important role or to have become an important tool with the state for redistribution or reorganization of income generated by the existing system of development in the country. Therefore, a direct relation between government expenditure and economic growth and vice versa. This paper is influenced mostly by the availability of secondary data on different aspects of public expenditure in the particular state and the broad objective of the study is limited to testing the existing and accepted theories on the association between economic growth and public expenditure.

Principle of maximum social advantage.

Dalton's Principle of Maximum Social Advantage – maximum satisfaction should be given by striking a balance between public revenue and expenditure by the government. Economic welfare is achieved when marginal utility of expenditure = marginal disutility of taxation. He explains this principle with reference to:-

Maximum Social Benefit (MSB)

Maximum Social Sacrifice (MSS)

It was introduced by Swedish Economist "Erik Lindahl in 1919". According to his theory, determination of public expenditure and taxation will takes place on the basis of public choice which they will identified by themselves. Cost of supplying a good will be taken up by the people. The tax that they will pay will be revealed by them according to their capacities.

Causes of Growth of Public Expenditure

There are several factors that have result in enormous increase in public expenditure through the years.

1. **Defense Expenditure** :Due to modernization of defense equipment by navy, army and air force to prepare the country for war or for prevention causes-for-growth-of-public-expenditure.
2. **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.

   [1] **Welfare State**:- The 19th century state was a 'police state' while, in 20th and 21st centuries modern state is a 'welfare state'. Even in a capitalist framework, socialistic principles are not altogether discarded. Since socialistic principles are respected here, modern governments have come out openly for socio-economic uplift of the masses. Various socio-economic programmes are undertaken to promote people's welfare. Modern governments spend huge money for the purpose of economic development. It plays an active role in the production of goods and services. Such investment is financed by the government.

   Besides development activities, welfare activities have grown tremendously. It spends money for providing various social security benefits. Social sectors like health, education, etc., receive a special treatment under the government patronage. It builds up not only social infrastructure but also economic infrastructure in the form of transport, electricity, etc.
3. **Economic Development**:

   Modern government has a great role to play in shaping an economy. Private capitalists are utterly incapable of financing economic development of a country. This incapacity of the

[1] http://www.economicsdiscussion.net/india/public-expenditure/public-expenditure-causes-principles-and-importance/17462

private sector has prompted modern governments to invest in various sectors so that economic development occurs. Economic development is largely conditioned by the availability of economic infrastructure. Only by building up economic infrastructure, road, transport, electricity, etc., the structure of an economy can be made to improve. Obviously, for financing these activities, government spends money also extended to welfare, mid-day meals, pension provisions etc

4. **Price rise** – higher price level compels government to spend increased amount on purchase of goods and services.
5. **Increase in public revenue** – with rise in public revenue, government is bound to increase the public expenditure.
6. **International obligation** – maintenance of socio economic obligation, cultural exchange etc. (these are indirect expenses of government)
7. **Wars and social crises** – fighting amongst people and communities, 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.
8. **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.

CONCLUSION:

Impact of Public Expenditure on Economic Growth:

The Keynesian analysis of the impact of public expenditure is contained in his 'General Theory'. The Great Depression of 1930s and resultant Keynesian prescription for the economic revival clearly brought out the important role played by the public expenditure (as the chief instrument of fiscal policy) in ensuring output, income and employment generation and thereby rescuing the economy from the under employment equilibrium. Keynesian analysis clearly brought home the futility of relying on the invisible hand - market forces - wage price flexibility to ensure full employment/economic revival. Keynes mainly pointed out that in a classical system lack of effective demand arises due to behaviour of consumption in response to increases in income. Since the Marginal Propensity to Consume (MPC) is less than unity, that creates lack of demand.

The savings that arise due to the gap between income and consumption are not automatically invested, thereby accentuating the problem further. Hence the state intervention and the increase in investment (i.e. public expenditure) would increase aggregate demand and cover the deflationary gap. "This would bring about adjustment between supply and demand and restore equilibrium, so as to reduce over production and general unemployment" (Kothari, 2001:71). Thus public expenditure solves the economic ills by way of mainly correcting the lack of effective demand, bridging the deflationary gap, brings about the revival of output income and employment generation.

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