

Vol 5 Issue 2 Nov 2015

ISSN No : 2249-894X

*Monthly Multidisciplinary
Research Journal*

*Review Of
Research Journal*

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RNI MAHMUL/2011/38595

ISSN No.2249-894X

Review Of Research Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial Board readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

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ROLE OF PUBLIC EXPENDITURE IN THE PROSPERITY OF INDIAN ECONOMIC SOCIETY – A FOOD FOR THOUGHT



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ABSTRACT:

The expenses incurred by the governments for its own maintenance, preservation and welfare of the economy as a whole is referred to as public expenditure. In other words, it refers to the expenses of public authorities-central, state and local governments in a federation-for the satisfaction of collective needs of the citizens or for promotion of economic and social welfare. The development functions include education, public health, social security, irrigation, canal, drainage, roads, buildings, etc. The major cause of increase in the public expenditure is nothing but, these developmental functions. The two major reasons for the same are: a) the economic activities of the state has increased manifold and b) nature and volume of public expenditure have greatly affected the economic life of the country in a different manner. i.e., it has affected production, distribution, consumption and general level of economic activities. The author intends to highlight the above statements.

KEY WORDS: Public Expenditure, Production, Distribution, Maximum social benefits, Urbanization, Industrialization, Growth, Stability, Economic development.

INTRODUCTION:

The department of public finance had received scant attention at the hand of writers on public finance throughout the 19th century. The public expenditure is far more important in its implications and bearing on public welfare than the revenue. The main reason for the early neglect of the subject of the public expenditure seems to be the amount of expenditure was very small.

The eminent economist, Adam Smith had concentrated only on positive role of government in terms of supporting the smooth flow of economies with least interference in economic activities.

The government must look after on the following points:

1. Expenditure on defense, to protect the citizen's from external aggression
2. Expenditure on internal law and order so as to



bring about peaceful functioning of economic activities.

3. Expenditure of government on administrative activities for bringing about co-ordination of different economic activities to achieve economic and social welfare,

4. Expenditure on certain amount of infrastructure development, to help the economy grow.

The role of government started increasing with increase in urbanization and industrialization. The economic activities of the government is increasing in many-folds Adolph Wagner a German economist stated that the government activities whether economic or non economic started increasing, resulting in increase in the government expenditure.

Public expenditure policy of the government came to the forefront due to the application of Keynesian "function finance approaches".

Canons or Principles of Public Expenditure:

1. Canon of Benefit: Public Expenditure should bring social advantages such as increased production, preservation of social peace against external aggression and internal disorder, and as far as possible reduction in income inequalities. In other words, public funds must be spent in those directions which are most conducive to public interest. Public expenditure must result in the achievement of maximum social advantage. Public wealth should not normally be utilized for the benefit of a particular group, it should rather equitably confer benefits on the whole community. Public expenditure in every direction must be carried just so far that the advantage to the community of a further small increase in any direction is just balanced by the disadvantage of a corresponding small increase in taxation and from any other source of public income. It should aim at maximum benefit.

2. Canon of Economy: Economy, here, does not mean miserliness; rather it means that wasteful extravagant expenditure should be avoided. The public authorities should not waste the limited resources at their disposal. It is, therefore, necessary that the Government incurs expenditure with greatest care and prudence. Only the minimum necessary amount should be spent on any given head of expenditure.

3. Canon of Sanction: There should be proper procedure of formulating the policy for public expenditure with sufficient safeguards for avoiding arbitrariness and influence of certain vested interests in the matter of public expenditure. The canon requires that there should be in place a proper procedure for authority to incur expenditure out of public funds and that accountability for expenditure should be inbuilt in the scheme of sanction and incurring of expenditure. The spending authority should obtain proper sanction from the authority vested with the power of sanction. The canon also envisages that there should be adequate control and audit of public expenditure to ensure that expenditure is as per sanction and likelihood of avoidable and unscrupulous expenditure and misappropriation of funds is avoided.

4. Canon of Surplus: This canon enjoins that public expenditure should be, as far as possible, met from current public revenues, without resorting to deficits or borrowings.

5. Canon of Elasticity: According to this canon, expenditure policy of the Government should be such that it may be possible to change the size and direction of public expenditure according to requirements of different circumstances.

6. Canon of Productivity: This canon implies that public expenditure should be such that would encourage production and productive efficiency in the country.

7. Canon of Equitable Distribution: This canon is particularly important for the countries where glaring inequalities of income and wealth are present.

8. Promotion of economic Growth and stability

In modern time, a very important principle of public expenditure is that it should promote economic development and economic stability, directly or indirectly. No public expenditure should impair the economy's potentialities for economic growth. In all public expenditure requirement of economic growth and economic growth and stability are kept in the forefront.

Public expenditure promotes economic development in the following ways:-

1. Social and economic overheads:-

Economic development is handicapped in under development countries on account of lack of necessary infrastructure. Economic overhead like the road and railway irrigation and power project are essential for the speeding- up economic development. Social overhead likes hospital, schools and colleges and technical institution to are essential. Money for these things cannot come out private sources. Public expenditure has to build up the economic and social overheads.

2. Balance Regional Growth.

It is considered desirable to bring about a balance regional growth special attention has to be paid to the development of backward area and under developed regions. This requires huge amount for which reliance has to be placed on public expenditure.

3. Development of Agriculture and industry:-

Economic development regarded synonymous with industrial development but agricultural development proved the base and to be given top priority Government has to incur lot of expenditure in the agricultural sector; e.g. on irrigation and power, seeds farms, fertilizer factories, warehouses, etc and in the industrial sector by setting up public enterprises like the steel plants, heavy electrical, heavy engineering machine- making factories, etc. All these enterprises are calculated to promote economic development.

4. Exploitation and development of mineral resources :-

Minerals provide a base for further economic development. The government has to undertake schemes of exploration and development of essential mineral, e.g. coal and oil. Public expenditure has to play its role here too.

5. Subsidies and Grants

The central government gives grants to state government and the state government to local authorities to induce them to incur desirable expenditure subsidies have also to be given to encourage the production of certain goods especially for export to learn much needed foreign exchange.

Union Minister for Finance Shri Arun Jaitley on 28th February presented in Parliament the Union Budget 2015-16, with a focus on growth, promoting entrepreneurship and manufacturing, rationalizing tax regime and announcing some relief to common man.

Budget Estimate:

SN.	Particulars	Amount in RS.
1.	Non-Plan Expenditure estimation 2014-15	13,12,200 crore
2.	Plan Expenditure estimation 2014-15	4,65,277 crore
3.	Total Expenditure estimation 2014-15	17,77,477 crore

Causes of increasing in public expenditure

Public expenditure increased enormously. The main reason is that the function of state have increased manifold. In the past, the states are regarded only as a police state concerned with defense from foreign aggression and maintenance of law and order within the state.

The following are the principal causes of growing public expenditure:-

Increasing in area and population:-

In the first place, the increasing in public expenditure is due on fact that the physical boundaries of the states have been widened. No-man's lands have been brought under organized government. Also, in certain case, even if the area has not increase, the population figures have considerably gone up. Governments have, therefore, to care to the need of millions of more peoples scattered perhaps over a much wind area.

Growth of states function:-

As already pointed out, the modern states are no longer police states concerned mainly with the maintenance of law and order. They are now regarded as welfare states. This has resulted in tremendous increases in their function. While old function binged performed intensively such as administrative function and function related to internal security and protection against aggression but numerous new function are being undertaken, e.g. optimum utilization of national resources, economic growth.

Increasing in national wealth:-

There has been almost a continuous improvement in agriculture, trade and industry in every country, though in some countries like India it has been painfully slow. There has been a steady increase in per capital income and consequently an improvement in the standard of living. There has been a corresponding improvement in public revenue and public expenditure.

Ability to tax

In a low-income economy, it is difficult to impose and collect taxes. But as economic develops, a much wider range of taxes become available to the states and as states revenue swell, public expenditure increase, ability to taxes raising the ability to spend.

Technological changes:-

Technological inventions call for larger or new production in the public sector, because it happens that improvements in techniques can be best exploitation by the states. For instance, invention of internal combustion gave rise to a massive automobiles industry necessitating the construction and improvement of highways. States expenditure naturally goes with the expansion of

the public expenditure

Expansion of public sectors

Socialistic tendencies have in modern time resulted in the expansion of the public sectors. As a consequence public expenditure has gone very high.

Defective financial and civil Administrative:-

Not a small increase in public expenditure is due to defective financial and civil administration. Duplication and unnecessary multiplication of governmental agencies is not uncommon. Wrong allocation of resources and function also leader to extravagance. A tax control over public expenditure swells it to an unnecessarily high figure.

Requirements of full employment:-

A modern state is anxious to underwrite full employment. To provide employment for all, the states must launch ambitious. Naturally, the public expenditure must shoot up.

EFFECTS OF PUBLIC EXPENDITURE

1. Effect on production

There is a type of public expenditure which is regarded as unproductive. This refers to expenditure on the prosecution of, or the preparation for, a war. Most of the public expenditure is productive directly or indirectly. Government in every country is running commercial enterprises which are directly productive. The Indian government has created solid and lucrative assets in the form of canals and railway. The states enterprises make a directly contribution to production in the community.

The great deal of public expenditure is, however only indirect productive. In this connection we may consider the effect of the public expenditure on:-

- Power to work and save
- Will to work and save
- Diversion of resource as between employment and localities
- The total amount of employment and income

The public expenditure increase production (a) by improving the productive efficiency of workers (b) by providing economic and social overhead (c) by giving direct assistance in the form of loans, grants and subsidies and technical advice and (d) by investment of public enterprises. Besides raising the level of production, public expenditure can influence the pattern of production or composition of output.

2. Effects on distribution

Public expenditure can have a very wholesome influence on the distribution of wealth in the community. It can be reduce inequalities of incomes. It is an admitted fact that the benefit to the poor from states activities is far greater than the rich. A rich man can protect himself. But poor man is helpless. There is a certain expenditure which benefits the poor exclusively and primarily. The benefits derived from such social service by the poor may be regarded as a net addition to their income. And we remember that the revenue is obtained by taxing the rich, the conclusion is inequalities of wealth

distribution have been reduce to some extent.

Corresponding to the principle of maximum sacrifice in taxation, there is the principle of maximum benefit in public expenditure. Public expenditure must be so arranged as to confer a maximum benefits on the community as a whole. If a government subsidies the production of commodities largely consumed by the poor, it is progressive otherwise regressive.

On the whole, public expenditure in modern times tends to make the distribution of wealth in the commodity more equitable.

3. Effect on level of income and Employment

The public income affects the level of income and employment in the country. Keynes has show that the government can remove widespread unemployment during the period of depression through liberal public expenditure on public works. It can thus raise the level of income and employment in the country.

When government increases its investment expenditure on public works, than the increasing in the level of income and employment in those activities, but it will be many times expenditure. The government should increase its expenditure in such a situation so that the level of national income and employment increase.

In the way of Keynes has shown that during depression the government can remove unemployment by increasing its public expenditure. Thus, public expenditure can vitally influence the level of national income and employment in the country and maintain economic stability by eliminating economic fluctuations.

4. Effects on income and employment in a developing economy

The effect of public expenditure on income and employment in developed countries is ensure economic stability by eliminating economic fluctuation. The low level of income and employment is due not so much to deficiency of demand as in developed countries during depression, but to deficiency of capital stock it is for the state to make up this deficiency through a wise policy relating to public expenditure.

The government in a developing economy can with adequate and properly directed public expenditure build up the requisites of economic growth. The government of can also lunch public enterprises and build up heavy and core industries of strategic importance it can also promote agricultural development by making adequate provision for the supply of critical input in the form of irrigation facilities, fertilizer, improve seeds and pesticide. In these and any other ways, public expenditure can use as an instrument for raising the level of income and employment in the country. Though public expenditure, the government can raise the rate of capital formation in the country and thus promote economic development. It would provide employment and build up productive capacity of the economy.

In India the government is spending lots of money under the five year plans on schemes of capital formation. It has spent cores of rupees on irrigation and power by undertaking multipurpose projects, on roads, railway, on huge steel plants machine making industry, heavy engineering and heavy electrical industry, fertilizer industry and so on. This has substantially added to the volume of employment and productive capacity in the country. These are important steps towards removing unemployment and poverty in the country.

KEY ACHIEVEMENTS

- Financial Inclusion - 12.5 crores families financially mainstreamed in 100 days.
- Transparent Coal Block auctions to augment resources of the States.
- Swachh Bharat is not only a programme to improve hygiene and cleanliness but has become a movement to regenerate India.
- Game changing reforms on the anvil:
 - o Goods and Service Tax (GST)
 - o Jan Dhan, Aadhar and Mobile (JAM) - for Direct Benefit Transfer.

Major Challenges Ahead:

Five major challenges: Agricultural income under stress, increasing investment in infrastructure, decline in manufacturing, resource crunch in view of higher devolution in taxes to states, maintaining fiscal discipline.

To meet these challenges public sector needs to step in to catalyze investment, Make in India Programme to create jobs in manufacturing, continue support to programmes with important national priorities such as agriculture, education, health, MGNREGA, rural infrastructure including roads.

Challenge of maintaining fiscal deficit of 4.1% of GDP met in 2014-15, despite lower nominal GDP growth due to lower inflation and consequent subdued tax buoyancy.

CONCLUSION

• Finally to conclude that public expenditure to be beneficial must conform to the principles enumerated above. The public expenditure should be directed to the achievement of economic and social objects in the country. Public expenditure has to play a vital role in economic development. It is required to create and maintain conditions essential for economic growth. In other words the Expenditure incurred by Public authorities like Central, State and local governments to satisfy the collective social wants of the people, which must be the priority and through which only the nation can experience the economic development.

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- Key Features of Budget 2015-2016 (274 KB) - PDF file that opens in a new window
- Budget Speech - External website that opens in a new window
- Budget at a glance - External website that opens in a new window
- Economic Survey 2014-15 - External website that opens in a new window
- Rail Budget 2015-16

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