Role of Public Expenditure

1) **Introduction**

- Government Spending refers to public expenditure on goods and services and is a major component of the GDP.

- Government spending policies like setting up budget targets, adjusting taxation, increasing public expenditure and public works are very effective tools in influencing economic growth.

2) **Public expenditure promotes economic development in the following ways:**

- **Social and Economic Overheads**
  
  a) Economic overheads like the roads and railways, irrigation and power projects are essential for speeding-up economic development.
  
  b) Social overheads like hospitals, schools, and colleges and technical institutions too are essential.

- **Balanced Regional Growth**
  
  a) Special attention has to be paid to the development of backward areas and underdeveloped regions.
  
  b) This requires huge amounts for which reliance has to be placed on public expenditure.

- **Development of Agriculture and Industry**
  
  a) Agricultural development provides the base and has to be given top priority.
  
  b) Government has to incur lot of expenditure in the agricultural sector and industrial sector to promote economic development.

- **Exploitation and Development of Mineral Resources**
  
  a) Minerals provide a base for further economic development.
  
  b) The government has to undertake schemes of exploration and development of essential minerals, e.g., coal and oil.

- **Subsidies and Grants**
  
  a) The Central Government gives grants to State governments and the State governments to local authorities to induce them to incur some desirable expenditure.
  
  b) Subsidies have also to be given to encourage the production of certain goods especially for export to earn much-needed foreign exchange.

3) **Importance of Public Expenditure**

- Keynesian macroeconomics provides a theoretical basis for recent developments in public expenditure programmes in the developed countries.
• Through variation in public expenditure, aggregate demand can be managed to check inflation in the economy.

• Public expenditure can also be used to improve income distribution and to direct the allocation of resources in the desired lines

• To ensure economic stability, to generate and accelerate economic growth and to promote employment opportunities

• plays a useful role in alleviating mass poverty and to reduce inequalities in income distribution

• Public investment is the only option at a time when corporate and banks are struggling with poor balance sheets

4) Trends in Government Expenditure

• India’s government spending is lowest among BRICS, and lower than the OECD and emerging market economies.

• They are in fact, lower than those of comparable per-capita GDP economies such as Vietnam, Bolivia and Uzbekistan.

• India has a low tax-GDP ratio so obviously, government spending will also be low.

• Further, survey says that the big increase in public spending in most of the advanced economies we see today happened to crises of extreme magnitude such as world wars and great depression, which led to sharp expansion of the welfare state.

• Independent India did not suffer any such crises.

• Solution

  a) To boost public spending, government needs more revenues in the form of taxes. That can be done by increasing tax-GDP ratio.

  b) Indian elite should pay more taxes to provide for greater spending.

  c) The Government should phase-out the tax exemption raj that benefited the richer private sector.

  d) The survey also recommends removing tax incentives for small savings, as mostly the rich benefit from them

  e) imposing tax on gold since it is hoarded by the rich

  f) Imposing wider property tax in the context of smart cities.

5) Why Public expenditure is the key

• Private investment in general is volatile.

• Foreign private investment is more volatile because the available investment avenues are significantly greater (i.e. the entire world).
• Despite FDI provides diffusion of new technology, the existing state of physical and human capital in India may prove inadequate for the diffusion

• The adverse consequences are unstable employment and an accentuation of income and regional inequalities.

• Howsoever economically beneficial FDI may seem in the short period, it has long-term adverse consequences for the economy.

• A government committed to the long-term economic health of India must therefore increase the quantity and quality of public investment.

• Long-term solution is substantial public investment in education, health and environment, which will not only improve India’s socio-economic condition but also crowd in domestic private investment.

6) Public expenditure on Education

• Each successive government has on multiple occasions reaffirmed this goal of spending 6% of GDP on education

• India has never reached even near this goal and currently it is at 3.8%.

• The public expenditure on education in the OECD is 5.4% and in Brazil 5.8%.

• There are some critical parts of the education system where we have hardly invested, most notably in teacher education, physical & social sciences, humanities and vocational education

• Education is listed amongst the “9 pillars” of this year budget.

• Due to irregular payments to the teachers in rural areas, it has led to a culture of absentee teachers and high school dropout rates

• Schemes like Mid day meal scheme face huge underfunding and corruption, which lessens its attractiveness for rural parents to send their children to school

• Poor nature of infrastructure of govt schools, due to lesser funding have increased the popularity of private schools, which are not affordable for the majority poor population of the country

• Solution
  a) Increasing Tax to GDP ratio, which can help govt to gain more funds to be allocated to education sector
  b) After the 1945 bombing, Japan laid first emphasis on education sector to strengthen its future. India should take cue from this, and lay more attention to the base of its future development
  c) Adequate funding to govt schools to improve their classroom facilities and sanitation, to attract more children

7) Public health expenditure
India has successively increased the public health spending over the years. However, despite these steps, the funding remains short of the 3% of the GDP that the developed countries are able to provide to their citizens.

Budget 2016-17 takes the incremental step of introducing some insurance protection against high out-of-pocket expenditure that pushes families into poverty.

Access to dialysis for kidney failure at district hospitals through a dedicated national programme is an intervention in the right direction.

As a scaled-up national programme, there is much to learn from the experience of countries such as Thailand and Japan.

Viable funding to universalise access and tightly regulated costs combined with a guarantee of quality care are important to India.

8) **Defence Expenditure**

Money allocated is wholly inadequate, not just for equipments but also for training and day-to-day running of the military.

India's defence budget which is just over 2% of the GDP at $33 billion is way short of Chinese over $130 billion.

The defense sector in India accounts for a major part of the government's budget, with an increase of 12.43% from last year.

Even with this huge expenditure, there exists a critical shortfall of essential military equipments.

**Solution**

a) prioritising requirements and approaching the global market only for immediate essentials - for example, light mountain artillery guns, night vision equipment and submarines

b) For lower priority equipment, the defence ministry must galvanise domestic producers, especially the private sector, helping in the process the implementation of "Make in India" programme

9) **Conclusion**

However, given that public investment is restricted by fiscal consolidation targets, it needs to be supplemented with private investment.

Investment is the key to growth and therefore, for economic health of the nation, there is a need to increase quality and quantity of public investment.