

# **Effects of Public Expenditure**

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## **Effects on Production**

# Effects on Production

- The idea about the effects of public expenditure varies over time. Under the influence of laissez-faire, the functions of the state were only of regulating nature such as maintenance of law and order, defending against external aggression and running of public utilities services.
- But change in perception about the role of public expenditure after great depression of 1929 has led to increase in public expenditure with its likely impact of different economic indicators like on production, investment, employment, allocation of resources and price stability etc.

# Effects on Production

- According to Dalton, the effects of public expenditure can be described as under:

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- A. Effect of Public expenditure on production
- B. Effect of Public expenditure on distribution
- C. Effect of Public expenditure on economic stability
- D. Effect of Public expenditure on economic growth

# Effects on Production

## ■ A. Effect of Public expenditure on production

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- The public expenditure has some effects on the pattern and amount of production in a country. Public expenditure influences the productive activity in a number of ways.
- However, the effect of public expenditure depends upon three facts;
  1. Ability to work, save and invest;
  2. Willingness by people to work save and invest;
  3. Allocation of economic resources as between different use and localities.

# Effects on Production

## 1. Ability to Work, Save and Invest

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- Ability to work, save and invest is generally affected with the increase in public expenditure. Increase in public expenditure on education, medical facilities, cheap housing facilities, means of transports and communication and recreational facilities will increase the efficiency of person to work. This will in turn affect production and national income. At the same time, public expenditure can push up the saving and the efficiency of the workers. The purchasing power of the people will also be the increased by such type of public expenditure on free education facilities, unemployment benefits, sickness benefits, cheap housing facilities etc. in addition to this. Expenditure for maintaining law and order creates confidence and faith in the minds of the common people which helps to encourage the investment into productive channels.

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- Public expenditure improves the mental standard of people results in better utilization of the ability of the people, therefore, the public expenditure should not be weighed in favour of luxury because it will decrease the ability of the people to work and it will lead to harmful effect on production. But public expenditure should be incurred on public utility services such as construction of roads, banks, dams, education and medical facilities.

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## 2. Willingness by People to Work Save and Invest

- Public expenditure also affects the willingness to work, save and also invest. It not only affects the present but also the future generation. The Public expenditure should be in that way so that it must be more fruitful to the worker while working than when he is out of job. The negative side of public expenditure is that why a person should would put hard work and save when he finds his future safe and secure.
- The desire to work and save will increase if the common masses are such that their present savings and investments are secured and will yield good dividend to them in the years to come. Public expenditure should be incurred system activity and in a planned manner in order to provide social security to the maximum extent.

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## 3. Allocation of Economic Resources as Between Different Use and Localities.

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- Public expenditure refers diversion of economic resources between different areas and uses can significantly influence the pattern of production. Government has to select the particular region or industry for incurring the public expenditure so that the maximum national production and maximum social advantage be attained. The provisions of roads, railways, and irrigation etc, infrastructure all increases the opportunities and make it possible for people to carry on and extend productive activity.

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- The Public expenditure induces people to put their resources to more productive channel. Roads and railways development makes it possible for people in the affected areas to increase their production as they are brought in touch with the rest of the world are provided with the better opportunities.

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- To be Continued -----