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Topic : Impact of Public Expenditure
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Impact of Public Expenditure

- Impacts of Public expenditure : 1.

The growth of public expenditure can create both the positive and negative effect in the economy. Sometimes, it may lead to the economic growth and sometime it retards the process of economic growth.

- There are some consequences of the growth of public expenditure :-

1). Public expenditure can create crowding-out effect i.e., extent to which public spending crowds out private spending. Crowding out may occur in two ways. The "direct crowd-ing out" or "transaction crowding out" takes place when the public spendings displaces private spending which is a close substitute.

2). Increment in the public expenditure also creates multiplier effect in the economy. Multiplier effect means a small increase in public investment brings about more than proportionate increase in the output level resulting in higher economic growth. If "super multiplier" is also under operation it may result in very high or explosive growth in income/output.

Note :

Super Multiplier → the combine effect of both multiplier and accelerator.

$$\boxed{K_G = \frac{\Delta Y}{\Delta G} = \frac{1}{1-MPC} = \frac{1}{MPS}}$$

govt. multiplier

3). Growth in public expenditure can cause the growth in money supply within the economy and ultimately leads to inflation. It means, increment in the Govt's expenditure enhances the level of Aggregate demand which some time leads to the hike in the general price level (i.e., called Inflation.)

4). Public expenditure indirectly helps to reduce poverty by generating income growth and ultimately helps the poor by "The tricle down effect" Along with this process of generation of incomes, higher economic growth generates the revenue necessary for spending on the social security programmes meant to fight poverty in a direct fashion.

5). Sometimes excess govt's expenditure/Public expenditure brings the situation of "fiscal deficit" [Difference b/w govt's expenditure and revenue] Excess fiscal deficit is not beneficial for the economy because it leads to the increment in the "Govt's borrowings" or "public debts"

6). Increase in public expenditure influences the income, output and employment level within the economy and also helps the country to attain the goal of "economic growth"

7). Govt invests on different types of programme, policy, scheme, project etc. for uplifting the life of common people of the country. In this way, Public expenditure also promotes the "Level of social welfare" within the Nation.

A/c Harrod Domar Model, Economic Growth is achieved as a result of capital formation and growth of labour force. Capital is accumulated and formed in the economy through saving. Nations with a high saving rate, generally achieve a higher rate of economic growth. But, the Govt expenditure has a direct bearing on the savings. As public expenditure increases, savings will decline and it will retard the process of capital formation and consequently Economic growth.

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