

4.5.1 Public expenditure

- a) *Distinction between capital expenditure, current expenditure and transfer payments*
- b) *Reasons for the changing size and composition of public expenditure in a global context*
- c) *The significance of differing levels of public expenditure as a proportion of GDP on:*
- *productivity and growth*
 - *living standards*
 - *crowding out*
 - *level of taxation*
 - *equality*
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- Capital expenditure: spending on assets which can be used multiple times
 - Current expenditure: day-to-day spending on maintaining government spending which recurs each year
 - Transfer payments: welfare payments such as Job Seekers' Allowance
 - Reasons for the changing size and composition of public expenditure in a global context:
 - After the war people demanded greater government support and a welfare system
 - Citizens in high income countries demand more from their government and the government has greater tax revenue to fund government spending
 - The financial crisis led to huge increases in government spending to stabilise the financial system
 - Significance of government spending on:
 - Productivity: supply-side policies can be used to increase productivity such as spending on infrastructure or education. However, government spending may be inefficient and wasteful
 - Living standards: market failure can be corrected and absolute poverty can be reduced
 - Crowding out: government spending may replace private sector spending because there are fewer good investment opportunities and government borrowing drives the interest rate up
 - Level of taxation: if government spending increases taxation will have to increase to fund this
 - Equality: redistributive taxation and welfare payments could increase incomes for the poorest people. Spending on public services gives access to these to people who may have been unable to afford it otherwise