

CANONS OF PUBLIC EXPENDITURE

Once it is decided that the govt. sector is to spend a certain percentage of national income, there is further problem of determining how best to spend this amount keeping in view the well being of the society. The canons or principles of public expenditure are the fundamental rules which govern the public expenditure policy of the governments. Many writers on public expenditure have written on canons of public expenditure.

Prof. Findlay Shirras has explained four canons of public expenditure. They are canon of benefit, canon of sanction, canon of economy and canon of surplus.

CANON OF BENEFIT-

The public expenditure should be planned so as to yield maximum social advantage and social welfare of the community as a whole and not of a particular group. Public expenditure must be spent in those directions which will maximise utility. It is possible only when the marginal utility from different uses is equal. The public authorities should distribute resources so as to increase production, reduce inequalities of income distribution, preserve social life of the people, and improve the quality of social life etc.

CANON OF ECONOMY

This implies that the state should be economical in spending money. It should not spend more than the necessary amount on items of expenditure. The sole aim is to avoid extravagance and corruption. Social benefit can be maximised when resources are not wasted. While incurring public expenditure social costs are to be minimised. To satisfy this canon Project Appraisal and Cost Benefit Analysis are to be adopted. **“Economy means protecting the interests of the tax payers not merely in effecting economies in expenditure, but in developing revenue.”—Shirras.**

CANON OF SANCTION

According to this canon, no expenditure should be incurred without the proper approval of the sanctioning authority. It also implies that the spending authorities should spend the amount for which it has been sanctioned and to see that the sanctioned amount is properly utilized. Public accounts are to be audited at the end of financial year. This canon acts as check on arbitrary, unwise and reckless

spending of public funds.

CANON OF SURPLUS

This canon believes in the avoidance of deficit in public expenditure. It is an outdated canon which lays down that public authorities should raise adequate revenue to meet expenditure and leave some surplus. This view has lost its validity in a situation of large scale unemployment .

OTHER CANONS OF PUBLIC EXPENDITURE

CANON OF PRODUCTIVITY

Public expenditure should promote production and increase the working efficiency of the people. Major part of public expenditure should be incurred on developmental activities. The aim of public expenditure should be maximum production, employment and income.

CANON OF ELASTICITY

There should be flexibility in government expenditure. That is, the government may be able to change its public expenditure policy with changing conditions. It means that public expenditure should increase during periods of emergency and reduce during normalcy.

CANON OF EQUALITY

This implies that public expenditure should be incurred in such a way that inequality in the distribution of income should be reduced. For achieving this canon the benefit of public expenditure should be conferred more on the poorer section of the society.

CANON OF NEUTRALITY

Public expenditure should not worsen the production-distribution-exchange relationship instead of improving it. Public expenditure should result in increased production and productivity, reduced inequality of income and wealth and increased economic activity and exchange relationship.

CANON OF CERTAINTY

The public authorities should clearly know the purposes and extent of public expenditure to be incurred. This canon explains the preparation of public budgets.

CANON OF COORDINATION

The canon is of greater relevance in a federal state where lower level govt. too spend large sums of money along with the central govt. Coordination is needed to avoid duplication of expenditure.

All the canons are not equally important .Cannon of benefit has greatest importance. All the canons are in reality administrative laws which act as guidelines in spending public money.