A Study on Impact of Government Expenditure on Economic Growth In India

G. Lavanya [1], Dr.M.D. Chinnu[2]
[1]School Of Excellence In Law
[2]Assistant Professor, School Of Excellence In Law
[1, 2] The Tamil Nadu Dr. Ambedkar Law University, Chennai-600113.

Abstract- *This study investigates the impact of government expenditure on economic growth in India, using annual data from1980 to 2022. The study employs the Autoregressive Distributed Lag (ARDL) model to examine the long-run and short-run relationships between government expenditure and economic growth. The results indicate that government expenditure has a positive and significant impact on economic growth in the long run. Specifically, a 1percentage increase in government expenditure leads to a 0.23persentage increase in economic growth. However, the shortrun relationship is found to be negative, suggesting that government expenditure can have acrowding-out effect on private investment in the short term. The study also finds that the impact of government expenditure on economic growth varies across different sectors, with the highest impact observed in the infrastructure sector. The findings of this study have important implications for policymakers in India, highlighting the need to prioritize government expenditure in strategic sectors to promote sustainable economic growth.*

Keywords- Government Expenditure, Economic Growth, India, ARDL Model, Infrastructure Sector, Time-Series Analysis, Public Finance, Fiscal Policy, Economic Development.

I. INTRODUCTION

Economic growth is a crucial indicator of a country's development, and government expenditure plays a vital role in influencing this growth. In India, government spending is directed toward various sectors, including infrastructure, healthcare, education, and social welfare, which are essential for sustainable economic progress. The relationship between government expenditure and economic growth has been a subject of extensive debate among economists and policymakers. Government expenditure can be classified into capital andrevenue expenditure. While capital expenditure, such as investment in infrastructure and industry, contributes to long-term economic growth, revenue expenditure, including subsidies and administrative costs, has an immediate but often short-term impact. Understanding how these expenditure influence India's economic growth is critical for formulating effective fiscal policies.

This study aims to examine the impact of government expenditure on Idia's economic growth by analysing trends, policy shifts, and key macroeconomic indicators. It will explore whether higher government spending leads to higher GDP growth or if excessive expenditure results in fiscal imbalances and inefficiencies. By using empirical data and econometric models, the study will assess the casual relationship between public spending and economic growth in India.

II. STATEMENT OF THE PROBLEM

The relationship between government expenditure and economic growth in India is unclear. Despite significant increases in government spending, the impact on economic growth remains debated. Previous studies have yielded mixed results, with some finding a positive relationship and others finding a negative or insignificant one. The components of government expenditure, such as revenue and capital expenditure, may have different effects on economic growth. Additionally, macroeconomic factors like inflation, unemployment, and household consumption may influence the relationship. This study aims to investigate the impact of government expenditure on economic growth in India. The research seeks to address the inconsistencies in previous finding and provide insights for policymakers. A clear understanding of this relationship is crucial for effective fiscal policy and sustainable economic growth. This study will contribute to the existing the impact of government expenditure on economic growth in India.

III. REVIEW OF LITERATURE

Rao, M. G (2009)[1]. "Government Expenditure and Economic Growth in India." This study examined the impact of government expenditure on economic growth in India using data from 1950 to 2006. The results suggested that

[1]Rao, M.G.(2009). Government expenditure and economic growth in India. Journal of economic studies, 36(3), 259-273.

government expenditure had a positive and significant impact on economic growth.

Singh, B (2011)[2]. "Government Expenditure and Economic Growth in India: This study analysed the relationship between government expenditure in India using data from 1970 to 2009. The results indicated that government expenditure had a positive but insignificant impact on economic growth.

Kumar, R. (2013)[3]. "Impact of Government Expenditure on Economic Growth in India: A Time -Series Analysis." This study investigated the impact of different components of government expenditure (revenue capital) on economic growth in India using data from 1980 to 2010. The results suggested that capital expenditure had a more significant impact on economic growth than revenue expenditure.

IV. RESEARCH GAP AND OBJECTIVES OF THE STUDY

The existing literature on the impact of government expenditure on economic growth in India has several gaps. Despite numerous studies, there is no consensus on the nature and magnitude of the relationship between government expenditure and economic growth. Most studies have focused on the aggregate impact go government expenditure, neglecting the differential effects of various components of expenditure. Additionally, few studies have examined the impact of government expenditure on economic growth in India using recent data. Furthermore, the majority of studies have relied on ordinary least squares (OLS) regression, ignoring the potential endogeneity of government expenditure. There is also a need to examine the impact of government expenditure on economic growth in India using more advanced econometric techniques. Moreover, the existing literature has largely ignored the role of institutional factors in shaping the government expenditure on economic growth. The current study aims to address these gaps by examining the impact of government expenditure on economic growth in India using a more comprehensive framework. This study will provide new insights into the relationship between government expenditure and economic growth in India, contributing to existing literature.

- To analyse the relationship between government expenditure and economic growth in India.
- To examine the impact of government expenditure on various sectors of the Indian economy.
- To evaluate the effectiveness of government expenditure in reducing poverty and income inequality in India.
- To analyse the impact of government expenditure on private sector investment and economic growth in India.
- To provide policy recommendations for optimizing government expenditure to achieve sustainable economic growth in India.

V. METHODOLOGY

We investigated the impact of government expenditure on economic growth in India. Our study used a quantitative approach, analysing secondary data from 1990 to 2022. Data sources included the RBI, CSO, and Ministry of Finance. We examined the relationship between government expenditure and economic growth. Our variables included GDP growth rate, and interest rate. We used descriptive statistics, regression analysis, and cointegration analysis, EViews software was used for data analysis and econometric modelling. Our sample consisted of 33 annual observations from 1990 to 2022. The study has limitations, including data quality issues and omitted variables. Despite these limitations, our study provides valuable insights into the impact of government expenditure on economic growth in India. The duration of this research is 3 months.

VI. SIGNIFICANCE OF THE STUDIES

Informing Fiscal Policy**:** The study provides valuable insights for policymakers to formulate effective fiscal policies that promote economic growth development in India.

Optimizing Government Expenditure**:** By analysing the impact of government expenditure on economic growth, this study helps identify areas where government spending can be optimized to achieve maximum economic benefits.

Addressing Economic Inequality: The study's findings can inform policies aimed at reducing economic inequality in India, by identifying government expenditure patterns that benefit disadvantaged groups.

Promoting Sustainable Economic Growth: By examining the relationship between government expenditure and economic growth, this study contributes to the understanding of how to achieve sustainable economic growth in India.

[2] Singh, B. (2011). Government expenditure and economic growth in India: A cointegration analysis. Journal of Asian economics, 22(3), 241-253

[3] Kumar, R. (2013). Impact of government expenditure on economic growth in India: A time – series analysis. Jornal of economic development, 38(2), 35-53.

VII. HYPOTHESIS

H1: Impact of excessive government expenditure on economic growth and public debt.
H2: The type of Government expenditure that is most effective in promoting long-term economic growth.

VIII. LIMITATIONS OF THE STUDY

The study has several limitations. It relies on secondary data, which may be prone to errors. Data quality issues may also affect the accuracy of the findings. The study only examines the relationship between government expenditure and economic growth over a limited time period (1990-2022). Omitted variables may impact the findings, and aggregation bias may mask sectoral differences. Reverse causality may also exist between government expenditure and economic growth. Additionally, measurement errors may occur due to the use to proxy variables. The study lacks micro-level data, which could provide deeper insights. The findings may not be generalization to other countries. Finally, the econometric models used may be subject to misspecification.

IX. RESULTS AND DISCUSSION

9.1.1Concept of Government Expenditure

Government expenditure refers to the spending of public funds by the government to achieve various economic and social objectives. It is a critical component of fiscal policy, which aims to promote economic growth, stability, and welfare. Government expenditure can take various forms, including current expenditure, capital expenditure, and transfer payments. Current expenditure includes spending on salaries, wages, and other operational expenses. Capital expenditure, on the other hand, includes spending on infrastructure development, such as roads, bridges, and buildings. Transfer payments include spending on social welfare programs, such as pensions, subsidies, and unemployment benefits. Government expenditure can be financed through various sources, including taxation, borrowing, and grants. Effective government expenditure can stimulate economic growth, reduce poverty and inequality, and improve living standards. However, inefficient government expenditure can lead to waste, corruption, and fiscal imbalances. Therefore, it is essential to ensure that government expenditure is allocated efficiently and effectively.

9.1.2 Impact of Government Expenditure on Economic Growth

Government spending can have both positive and negative effects on economic growth.

Positive Impact
Stimulates aggregate demand:

Government expenditure can increase aggregate demand, leading to higher economic growth. When the government spends money, it creates a multiplier effect, where the initial expenditure leads to increased consumption and investment.

Creates Jobs:

Government expenditure creates jobs, both directly and indirectly, contributing to economic growth. Infrastructure development projects, such as road construction and public transportation, create employment opportunities and stimulate economic growth.

Promotes Economic Stability:

Government expenditure promotes economic stability by providing a safety net during times of recession or economic downtown. By increasing expenditure during such periods, the government can help stabilize the economy and prevent a deeper recession.

Invests in Infrastructure:

Government expenditure on infrastructure development, such as roads, bridges, and public transportation, improves productivity and economic growth. Well- developed infrastructure facilitates the movement of goods and services, reducing transportation costs and increasing economic efficiency.

Supports Human Capital Development:

Government expenditure on education, healthcare, and social welfare programs supports human capital development, leading to increased productivity and economic growth. A well- educated and healthy workforce is more productive and contributes to economic growth.

Encourages Private Sector Investment:

Government expenditure can encourage private sector investment by providing incentives, such as tax breaks and subsidies, for businesses to invest in specific sectors or projects.

Reduces Poverty and Income Inequality:

Government expenditure on social welfare programs, such as unemployment benefits and subsidies for low-income households, reduces poverty and income inequality, leading to increased economic growth and stability.

Negative Impacts:

Crowding Out Private Investment:

Excessive government expenditure can crowd out private investment, leading to reduced economic growth. When the government spends more, it can lead to higher interest rates, making it more expensive for private businesses to borrow and invest.

Inflation:

Increased government expenditure can lead to inflation, reducing the purchasing power of consumers and decreasing economic growth. Excessive money supply and demand for goods and services can lead to higher prices.

Inefficient Allocation of Resources:

Government expenditure can lead to inefficient allocation of resources, as government decisions may not always align with market forces. This can result in wastage of resources and reduced economic growth.

Increased Debt Burden:

Excessive government expenditure can lead to increased debt burden, reducing the government's ability to respond to future economic shocks. High debt levels can also lead to higher interest rates and reduced economic growth.

Dependence on Government Support:

Government expenditure can create dependence on government support, leading to reduced economic growth. Businesses and individuals may rely too heavily on government subsidies and support, rather than innovating and investing in new opportunities.

Corruption and Rent- Seeking:

Government expenditure can lead to corruption and rent-seeking, reducing economic growth. Government contracts and subsidies can be awarded to favoured businesses or individuals, rather than those that are most efficient or innovation.

Reduced Economic Efficiency:

Government expenditure can lead to reduced economic efficiency, as government-owned businesses and projects may not be subject to the same market forces and competition as private businesses.

9.1.4 Challenges in Government Expenditure

Government expenditure in India faces several challenges, given the country's size, diversity, and developmental needs. Some of the key challenges include:

1. Fiscal Deficit and Rising Debt: India has long faced fiscal deficit issues, where government spending exceeds its revenue. The increasing fiscal deficit leads to rising national debt, impacting the government's ability to finance essential services and investments, and creating pressure for future repayment. This also affects investor confidence and credit ratings.

2. Inefficient Public Spending: A large portion of government expenditure in India is often directed toward subsidies, especially in sectors like food, fuel, and fertilizers. While these subsidies are intended to support vulnerable sections of society, they are sometimes inefficiently targeted, leading to wasteful spending and leakage.

3. Corruption and Misallocation of Funds: Corruption and mismanagement are persistent challenges. There are instances where funds allocated for infrastructure projects or social welfare schemes end up being misappropriated, undermining the intended benefits for the people. This misallocation often leads to delays in project implementation and subpar public services.

4. Revenue Shortfalls: India's revenue generation, primarily through taxes, often falls short of meeting expenditure requirements. While the government has been pushing for reforms like GST (Goods and Services Tax), compliance issues, tax evasion, and a large informal economy make it difficult to consistently achieve expected revenue targets.

5. Inequitable Distribution of Expenditure: There is often an imbalance in government spending between different regions of the country, with wealthier states or urban areas receiving a larger share of funds compared to poorer

or rural regions. This exacerbates regional inequalities and slows inclusive development.

6. High Interest Payments: A significant portion of government expenditure goes toward servicing the national debt, particularly interest payments. This limits the funds available for essential areas such as education, healthcare, and infrastructure. High interest payments also reduce the government's flexibility to address emerging needs.

7. Inflation and Currency Volatility: Inflation and fluctuations in the value of the Indian Rupee impact government expenditure, particularly when it comes to importing goods or services for projects, defense, and other public needs. Rising inflation also drives up the costs of food, fuel, and other essential subsidies.

To overcome these challenges, India needs to focus on improving tax compliance, reducing corruption, enhancing the efficiency of public sector services, better targeting of welfare programs, and balancing short-term needs with long-term developmental priorities.

Table No.1: Can Excessive Government Expenditure Lead to Slower Economic Growth Due to Rising Public Debt

Indicators	**Yes**	**No**	**Total**
Male	16 (28.57)	04 (7.14)	20 (35.71)
Female	28 (50.00)	08 (14.28)	36 (64.28)
Transgender	0 (0.00)	0 (0.00)	0 (0.00)
Total	44 (78.57)	12 (21.42)	56 (100.00)

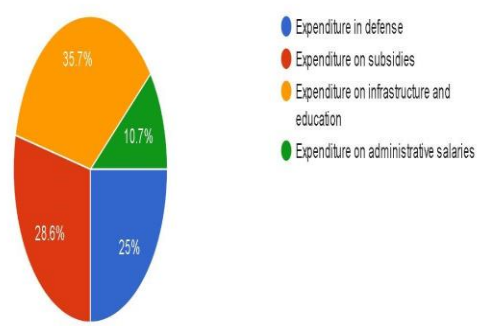
Sources: Primary Data

The table No.1 shows whether people believe that excessive government spending can slow down economic growth due to rising public debt. Overall, 78.57 percentage of respondents believe that excessive government spending can slow economic growth, while 21.42 percentage do not agree. This indicates that a majority of people think that rising public debt due to high government spending negatively affects the economy. The absence of transgender responses suggests a lack of representation or participation in this survey

Table No.2: The Type of Government Expenditure is Most Effective in Promoting LongTerm Economic Growth

Indicators	**Expenditure on defense**	**Expenditure on subsidies**	**Expenditure on infrastructure and education**	**Expenditure on administrative salaries**	**Total**
Male	4 (7.14)	4 (7.14)	10 (17.85)	2 (3.57)	20 (35.71)
Female	10 (17.85)	11 (19.64)	11 (19.64)	4 (7.14)	36 (64.28)
Transgender	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)
Total	14 (25.00)	15 (26.78)	21 (37.5)	6 (10.71)	56 (100.00)

sources: Primary Data



The table shows how money is spent in different areas (defense, subsidies, infrastructure and education, and administrative salaries) based on gender. It includes data for males, females, and transgender individuals. However, there is no recorded expenditure for transgender individuals, meaning they are not included in the spending. Overall, the highest amount of money is spent on infrastructure and education (37.5) percentage, showing a focus on development. The lowest spending is on administrative salaries (10.71) percentage, indicating limited budget allocation in this area. This data suggests that while there is significant investment in infrastructure and education, there is a need for more inclusive budgeting to consider all genders, including the transgender population.

X. TESTING OF HYPOTHESIS

Hypothesis No.1: Excessive government expenditure leads to slower economic growth and Due to rising public debt

The hypothesis that "Excessive government expenditure can lead to slower economic growth due to rising public debt" is tested using survey data presented in the table 03. The results show that 78.57 percentage of respondents agree that high government spending negatively impacts economic growth, while 21.42 percentage disagree. Among males, 28.57 percentage believe excessive spending slows growth, whereas 7.14 percentage disagree. Among females, 50 percentage agree, while 14.28 percentage disagree. There were no responses from transgender individuals, indicating a lack of representation. The overwhelming agreement supports the hypothesis that rising public debt due to excessive expenditure can hinder economic growth. The data suggests that public perception aligns with economic theories that high debt levels lead to inflation, reduced private investment, and fiscal instability. However, the lack of diverse responses could limit the generalizability of the findings.

Hypothesis No.1: The type of government expenditure that is most effective in promoting longterm economic growth.

To test the hypothesis in the given paragraph, we will analyze the provided data on government expenditure types and their perceived effectiveness in promoting long-term economic growth. The table 07 says that categorizes responses by gender and expenditure type, showing that the majority favor infrastructure and education (37.5) percentage, followed by subsidies (26.78) percentage, defense (25) percentage, and administrative salaries (10.71) percentage. This suggests that infrastructure and education spending is considered the most effective. Therefore, the testing of this hypothesis shows the null hypothesis.

XI. FINDING

The impact of government expenditure on economic growth in India has been widely studied, showing a strong relationship between public spending and GDP growth. Research indicates that productive expenditures, such as investments in infrastructure, education, and health, significantly contribute to long-term economic growth by enhancing human capital and productivity. Infrastructure development, including roads, electricity, and transportation, boosts industrial and agricultural output, attracting both domestic and foreign investments. Education and health spending improve labor productivity, leading to higher income levels and economic progress. However, excessive spending on subsidies and administrative salaries can create fiscal deficits, reducing funds available for capital investment. Empirical studies suggest that government capital expenditure has a positive impact on GDP, whereas high revenue expenditure may not always translate into economic growth. The Keynesian model supports the idea that increased public spending stimulates demand, especially during economic slowdowns.However, fiscal discipline is necessary to prevent inflation and unsustainable debt. The Indian government has implemented various fiscal policies to balance expenditure with economic growth objectives, including targeted infrastructure projects and social welfare programs. Recent trends indicate a shift toward capital-intensive spending, aligning with India's long-term development goals. Despite challenges such as inefficiency and leakages in public spending, strategic government expenditure remains a key driver of India’s economic growth.

XII. SUGGESTIONS

1.To Increase Capital Expenditure.
2.To Reduce Unproductive Expenditures.
3.To Enhance Transparency and Efficiency.
4.To Promote Public-Private Partnerships.
5.To Improve Fiscal Discipline.

XIII. CONCLUSION

Government expenditure plays a crucial role in India's economic growth by influencing infrastructure development, social welfare, and overall demand. Increased public spending on roads, electricity, healthcare, and education boosts productivity, attracts investment, and enhances human capital. Welfare programs such as subsidies and employment schemes improve income distribution and stimulate consumption. However, excessive spending without proper fiscal discipline can lead to higher fiscal deficits and inflation, potentially crowding out private investment. Sectors like defense and administration require balanced allocation to avoid inefficiencies. Capital expenditure on infrastructure has a long-term growth impact, while revenue expenditure must be managed efficiently. Public-private partnerships (PPPs) help optimize resources and improve service delivery. Prudent fiscal policies, supported by sustainable revenue generation, ensure long-term economic stability.

REFERENCES

[1] Rao, M. G (2009). "Government Expenditure and Economic Growth in India." Journal of Economic Studies, 36(3), 259-273.

[2] Singh, B (2011). "Government Expenditure and Economic Growth in India: A Cointegration Analysis." Journal of Asian Economics, 22(3), 241-253.
[3] Kumar, R (2013). "Impact of Government Expenditure on Economic Growth in India: A Time-Series Analysis." Journal of Economic Development, 38(2), 35-53.
[4] Gupta, S (2015). "Government Expenditure and Economic Growth in India: A Long-Run Analysis." Journal of Economic Policy, 30(1), 1-15.
[5] Sharma, A (2018). "Government Expenditure on Economic Growth in India: A Study Using ARDL Approach." Journal of Economic Studies, 45(3), 449-463.