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IMPACT OF GOVERNMENT EXPENDITURE ON ECONOMIC GROWTH IN INDIA (2019 TO 2023)

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ABSTRACT:

This research paper investigates the relationship between government expenditure and economic growth in India. The study aims to analyses the impact of different components of government spending on the overall economic performance of the country. Through a comprehensive literature review and empirical analysis, the paper assesses the effectiveness of government expenditure as a tool for promoting sustained economic growth.

Keywords: Government Expenditure, Economic Growth, GDP, Fiscal policy

INTRODUCTION:

In the modem time Government Expenditure is like a fiscal weapon with which a government regulates financial flow in the economy, conditions the demand and supply pattern, executes various development plans and implements its social, economic and political policies. It is just like a fuel without which the car of economic development cannot run speedily. The systematic study of the expenditure of the central, state or local government is called the science of the Government expenditure. "Expenditure" stands for such expenditure of resources (in cash or kind) as are measurable in the form of money. Hence government expenditure denotes the expenditure of pecuniary resources of the central, state or local government. It is a branch of public finance and studies how finance, both in cash or kind, are spent or should be spent to enable the state to perform its activities according to its avowed goals.

The economy of a country is greatly influenced by the level of Government expenditure. Government expenditure is one of the major processes by which welfare of the people is examined, and it is a vital aspect of a government's budget. It is an important instrument in the hand of the government that can be utilized for the maximisation of public satisfaction.

GOVERNMENT'S SOURCES OF INCOME:

The government needs money to supply goods and services to the sectors not covered by the private sector such as defence, and merit goods such as hospitals, schools etc. The Indian government raises funds through various sources. The primary sources of government revenue in India include taxation, borrowings, and non-tax revenue.

1. Taxation is often the primary source of revenue for the government. It includes direct taxes such as income tax, corporate tax, and wealth tax, and indirect taxes like Goods and Services Tax (GST), excise duty, customs duty, and sales tax. These taxes are levied on individuals, businesses, and the import and export of goods.

2. Borrowing is another source through which the government raises money from domestic and international entities. Domestic borrowing avenues include issuing government bonds, treasury bills, and other securities, while international borrowing involves obtaining loans from international financial institutions or issuing sovereign bonds.

3. The government's non-tax income sources include dividends and profits from state-owned enterprises, revenue from licensing and permits, fees for public services, and proceeds from asset sales.

GOVERNMENT'S EXPENDITURES:

The government's expenses have two broad categories – revenue expenditure and capital expenditure. Revenue expenditure refers to the expenses made towards paying salaries to government employees, ministers, etc. Capital expenditure includes the formation of assets in the economy such as building infrastructures, schools, hospitals etc. A significant amount is spent on providing services such as education, healthcare, defence, infrastructure, social welfare etc.

MENTIONED BELOW ARE THE KEY AREAS WHERE GOVERNMENT SPENDING FOSTERS ECONOMIC GROWTH:

1. Infrastructure Development: The government allocates a significant portion of its budget to build roads, railways, airports, ports, and power generation units. These investments help enhance connectivity, facilitate trade, and improve the overall quality of transportation and logistics.

2. Education and Skill Development: A sizable portion of the fund is spent on providing education and skill development facilities for sustainable growth. The money is directed towards promoting research and innovation and implementing skill development programs to equip the workforce with the necessary skills for the evolving job market.

3. Healthcare and Public Health: The government aims to provide affordable healthcare for all, which includes building and upgrading hospitals, medical research facilities, and public health infrastructure.

4. Agriculture and Rural Development: The government spends on agricultural research, irrigation projects, rural infrastructure, and subsidies to support farmers.

5. Social Welfare and Poverty Alleviation: The government allocates funds for social welfare programs like pensions, housing schemes, food subsidies, and employment generation initiatives to alleviate poverty and uplift marginalised sections of society.

6. Defence and Security: Defence spending is a major part of the government's spending, directed to the modernisation of the armed forces, defence research programs, and border infrastructure development.

7. Environmental Conservation and Renewable Energy: Promoting renewable energy sources, and implementing policies to address climate change and reduce pollution is a major agenda of the government, and it allocates a significant amount towards it.

RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE AND ECONOMIC GROWTH OF COUNTRY:

The relationship between government expenditure and economic growth is a complex and debated topic in economics. Different economists and schools of thought have varying perspectives on the extent to which government spending influences economic growth. Here are some key points to consider:

Keynesian Perspective:

Followers of Keynesian economics argue that government expenditure can play a crucial role in stimulating economic growth, especially during periods of economic downturns. According to Keynesian theory, increased government spending can boost aggregate demand, leading to higher production and employment levels.

Infrastructure Investment:

Some economists emphasize the positive impact of government spending on infrastructure projects. Investments in areas such as transportation, communication, and education are thought to enhance productivity and contribute to long-term economic growth.

Debt and Sustainability:

High levels of government expenditure can lead to budget deficits and increased public debt. Sustained and excessive debt levels may have negative implications for economic growth, as it could result in higher interest payments, reduced investor confidence, and constraints on future fiscal policies.

Taxes and Fiscal Policy:

The relationship between government expenditure and economic growth is closely linked to fiscal policy, including tax policies. The overall impact depends on how changes in government spending are financed—whether through increased taxes, borrowing, or other means.

In summary, the relationship between government expenditure and economic growth is multifaceted and context-dependent. While some argue for the positive role of government spending in stimulating growth, others emphasize the potential drawbacks, such as the crowding out effect and concerns about fiscal sustainability. Policymakers often need to carefully consider these factors when designing fiscal policies to promote economic growth.

REVIEW OF LITERATURE:

1. **Md. A. Rahman et al (2023)** "First and foremost, Government spending has a strong positive impact on GDP in SAARC countries, according to the empirical data. Second, in SAARC countries, government expenditure and economic growth has a long-lasting relationship. In SAARC countries, there is unidirectional causality between GDP and government expenditure in the region. Based on this relationship, it is suggested that increasing government expenditure will result in an increase in GDP in the same direction, whereas decreasing

government expenditure will result in an increase in GDP in the opposite direction. In order to increase economic growth in the selected SAARC countries, it is suggested that increasing government expenditure will result in an increase in economic growth in the chosen SAARC countries."

2. **Smitha Nayak et al (2021)** "Government expenditure is linked to the economic growth and is the driving force of every country. In the post liberalization era, India has been exposed to the dynamics of the world economy due to which India has witnessed a significant impact of Government spending on its economic growth. Economic growth is pivotal to the sustainable progress of a country, especially in the case of emerging economies."
3. **W. Easterly and S. Rebelo (1993)** examined the impact of fiscal policy variables on
   the level of development and rate of growth for a sample of 28 countries during the period from 1970 to 1988. Using cross-sectional methodology, the study revealed that government investment expenditure on transport and the communication sector has a positive impact on economic growth.
4. **C. Alexiou (2009)** empirically investigated the relationship between economic growth and government expenditure in the South Eastern European (SEE) economies from 1995 to 2005, using both the fixed effects model and the random coefficient model. The results confirmed that government expenditure has a positive impact on economic growth in the study countries.
5. **Wu et al. (2010)** published the paper with the broadest sample and the longest time frame, re-examining the causal association between public spending and economic development. They discovered that, regardless of how government spending, as well as economic growth, is measured, the results substantially supported both Wagner's Law and the theory that government expenditure is beneficial to economic growth.

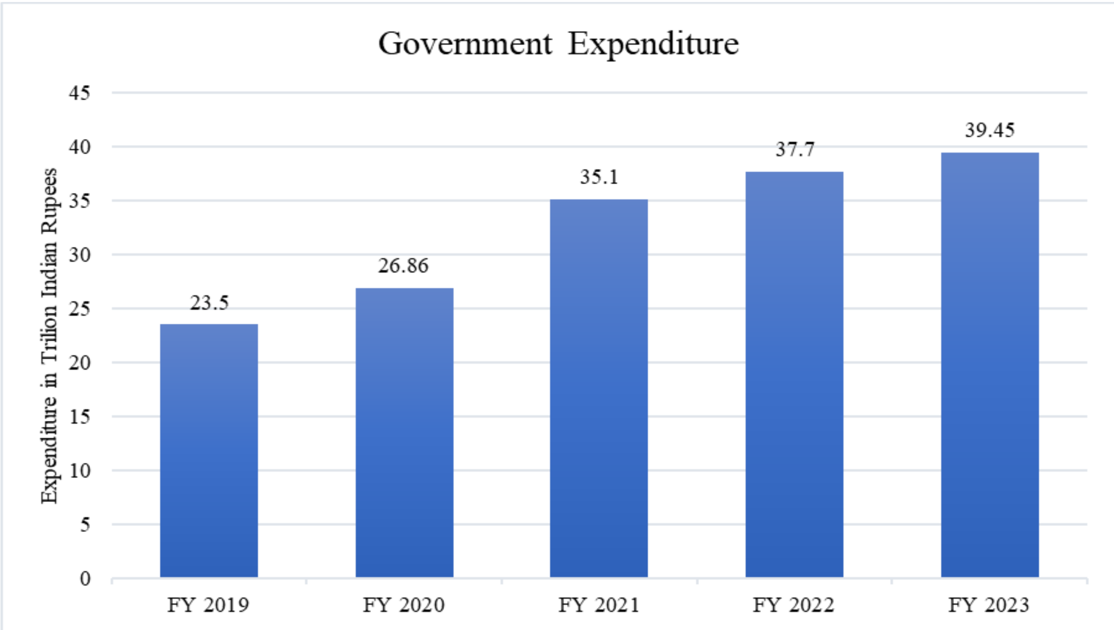
METHODOLOGY:

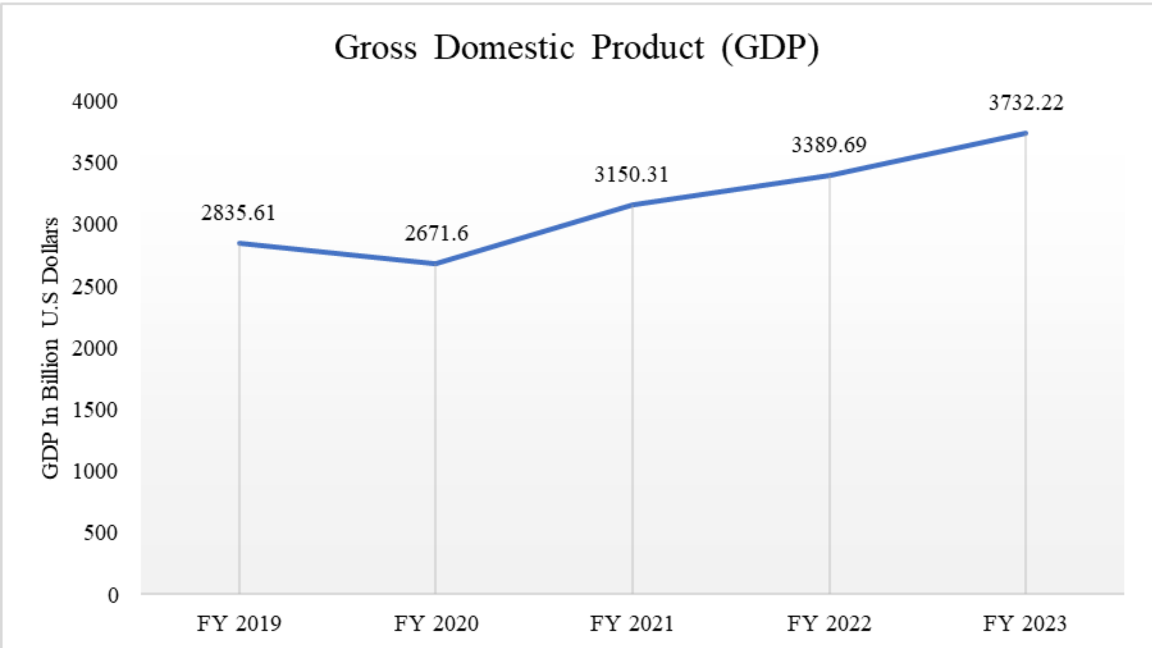
The paper has been written on the basis of secondary data. The secondary data were collected from published books, journals, research papers, Dissertation, magazines, daily newspaper, internet and official statistical documents and reports of

Government. The study is qualitative in nature.

DATA ANALYSIS AND INTERPRETATION:

Economic growth refers to an increase in the size of a country's economy over a period of time. The size of an economy is typically measured by the total production of goods and services in the economy, which is called gross domestic product (GDP). Economist use Gross Domestic Product (GDP) to measure economic stability and growth of country.





Above chart shows that when the government spends more money, it increases the GDP & GDP rate indicates the Economic Growth of Country. Above charts reveals that Country registered growth 2835.61 billion U.S dollar in the year 2019 when Government spending are increased by 35.1 trillion rupees in 2021 GDP reached at the level of 3150.31 U.S Dollar same as continue to be increased growth rate of country in the year 2022 & 2023 spending more money by Government in the country.

Note: - Year 2020 is exceptional period of Covid-19, when government spends more money but Growth rate of country had been decreased.

CONCLUSION:

The results of the study showed that government expenditure had a positive impact on economic growth and it was concluded that investment spending by a government should be encouraged in order to boost economic growth. It's important to note that the impact of government expenditure on economic growth can vary over time and across different economic conditions. Moreover, the effectiveness of government spending depends on the quality of governance, the institutional framework, and the overall policy environment. Policymakers need to carefully design and implement fiscal policies to ensure that government expenditure contributes positively to sustainable economic growth.

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