

## **Public Expenditure and Economic Growth in India: A Conceptual Study**

Aashutosh Sharma <sup>1\*</sup>

### **ABSTRACT**

The current research "Public Expenditure and Economic Growth in India: A Conceptual Study:" looked into the connection between public spending and the nation's economic Growth. A study demonstrates that India's economic development is significantly influenced by governmental spending. The government fosters an environment that is favourable to economic growth by spending money on social welfare programmes, research and development, infrastructure, and human resources. Empirical studies have consistently shown positive correlations between public expenditure and economic growth. However, effective management of resources, fiscal discipline, and improved governance are essential for optimal utilization of public funds. By addressing these challenges, India can harness the full potential of public expenditure to fuel sustainable economic growth and improve the standard of living for its citizens.

*Keywords: Expenditure, Growth, Spending, relationship, impact, effect*

India, as one of the fastest-growing economies globally, has witnessed a remarkable transformation in its public expenditure policies over the years. This analytical study aims to delve deep into the correlation between public expenditure and economic growth in India. By analyzing various reference articles, we will uncover key insights and shed light on the impact of public spending on India's economic development.

### **India's Classification of Public Expenditures**

Public expenditure refers to the government's spending on various goods and services that benefit the citizens of the country. Revenue expenditure and capital expenditure are the two subcategories of public spending in India.

### **Revenue Expenditure**

current/revenue expenditure includes regular expenses such as salaries, pensions, subsidies, and maintenance costs. It ensures the smooth functioning of government activities. This type of expenditure does not result in the creation of new assets or increase in the productive capacity of the economy. Plan and non-plan expenditures are the next two divisions of revenue spending.

<sup>1</sup> Research Scholar, Kalinga University, Raipur, Email: [ats15192@gmail.com](mailto:ats15192@gmail.com)

\*Corresponding Author

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The term "plan expenditure" describes how much money the government spends on initiatives and programmes that are part of its five-year plans. These plans are designed to achieve specific goals and objectives such as poverty reduction, employment generation, and infrastructure development. The government's spending on recurring costs including wages, pensions, and interest payments is referred to as non-plan expenditure.

### Capital Expenditure

Capital expenditure refers to the government's spending on creating new assets or increasing the productive capacity of the economy. This includes spending on infrastructure projects such as roads, bridges, airports, and power plants. Plan and non-plan capital expenditures are the next two divisions of capital expenditure.

The term "plan capital expenditure" describes how much money the government spends on initiatives that are outlined in its five-year plans. These initiatives aim to develop new resources and boost the economy's capacity for production. Contrarily, non-plan capital expenditure describes how much money the government spends on initiatives that are not outlined in the five-year plans.

### How Public Spending Affects Economic Growth

Public spending is crucial in promoting economic growth through a variety of means:

- 1. Infrastructure Development:** Government investments in infrastructure, such as roads, bridges, ports, and power plants, create a favorable environment for businesses to thrive. It enhances connectivity, reduces transportation costs, and attracts private investments, ultimately boosting economic growth.
- 2. Human Capital Development:** Allocating funds to education and healthcare sectors helps in nurturing a skilled and healthy workforce. A well-educated and healthy population fosters innovation, productivity, and competitiveness, leading to sustainable economic growth.
- 3. Research and Development:** Public expenditure on research and development (R&D) promotes innovation and technological advancements. It drives industrial growth, improves productivity, and enhances the overall competitiveness of the economy.
- 4. Social Welfare Programs:** By providing social welfare programs and transfer payments, the government ensures a basic standard of living for its citizens. This, in turn, reduces poverty, increases consumer spending, and stimulates economic growth.

### Concept of Economic Growth

You must first appreciate the fundamental idea if you want to understand economic progress. Increases in the overall value of the products and services generated in an economy are referred to as economic growth. It is quantified as the growth in GDP, or gross domestic product, as a percentage.

Economic development mostly divides into two categories:

- 1. Extensive growth** - involves increasing the quantity of inputs like labor, capital, land or natural resources. For example, when a country's population grows and more people join the workforce, it leads to a higher GDP. Extensive growth has limits, however, as inputs are finite.
- 2. Intensive growth** - involves increasing the quality or productivity of inputs. For example, when workers receive better education and training, they can produce more

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with the same amount of inputs. Technological innovations also enhance intensive growth. This type of growth can continue steadily over long periods.

### Factors Influence the Economic Growth:

#### 1. **Human Resources: The Backbone of Economic Growth**

Human resources, which include the workforce's knowledge, skills, and education, are crucial in promoting economic progress. A talented and well-trained workforce helps to provide high-quality products. On the other hand, a labour surplus is of less importance than a labour shortage because the latter hinders economic progress. Therefore, in order to achieve economic progress, a nation must guarantee a sufficient quantity of qualified workers.

#### 2. **Natural Resources: The Wealth Beneath Our Feet**

Natural resources, both above and below the surface of the land, have a big effect on a nation's economic development. The plants, watersheds, and landscapes, along with subsurface minerals and metals, nonmetals, and oil are examples of these resources. Climate and environmental factors influence a nation's natural resource richness. Natural resource-rich nations frequently enjoy strong economic development. However, the effective use of these resources is dependent on a number of variables, including technology, funding, and human resource capabilities.

#### 3. **Capital Formation: Building Pathways to Prosperity**

Capital formation encompasses land, buildings, machinery, power, transportation, and communication mediums. The production and acquisition of these manmade products are vital to economic growth. Capital formation increases the availability of capital per worker, leading to a higher capital-to-labor ratio. Consequently, labor productivity rises, resulting in increased output and overall economic growth.

#### 4. **Technological Development: Empowering Progress through Innovation**

Land, structures, equipment, electricity, transportation, and communication tools are all included in capital formation. The creation and consumption of these manufactured goods are essential for economic development. Capital formation increases the amount of capital that is available per worker, increasing the capital-to-labor ratio. As a result, output increases and the economy as a whole grows due to rising labour productivity.

#### 5. **Social and Political Factors: Nurturing Growth in Society**

Political and social variables also have a big impact on how fast the economy grows. Social influences include norms, attitudes, and beliefs that support or obstruct economic progress. It may be difficult for societies with traditional beliefs and superstitions that are reluctant to embracing contemporary lifestyles to have significant progress. Political issues, such as government involvement in policy creation and execution, also have a significant impact on economic growth.

### Examining the Link Between India's Public Expenditures and Economic Growth

#### Historical Perspective: Public Expenditure Trends in India

To understand the impact of public expenditure on economic growth, it is essential to examine the historical trends in India. Over the past few decades, India has witnessed significant changes in its public expenditure policies. These changes have been driven by both economic reforms and evolving social needs.

In the early years of independence, India focused on building a strong public sector to drive economic growth. The government heavily invested in industries, infrastructure, and social sectors. However, the 1991 economic reforms marked a shift towards liberalization and

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privatization. The focus shifted to creating an enabling environment for private investments while continuing to invest in crucial sectors.

### Empirical Research on Public Spending and Indian Economic Growth

Numerous empirical studies have looked at the connection between India's public spending and country's economic expansion. These studies offer insightful information about how various governmental spending categories affect the economy. Let's examine some of the main conclusions.:

- 1. Infrastructure Spending:** According to research, India's economic development is positively impacted by more public infrastructure spending. Investments in sectors like transportation, energy, and telecommunications have shown significant multiplier effects, attracted private investments and fostered economic development.
- 2. Education and Healthcare Expenditure:** According to studies, public spending on healthcare and education is positively correlated with economic growth. Improved access to quality education and healthcare services enhances human capital, leading to increased productivity and innovation.
- 3. R&D Expenditure:** There is evidence that public spending on R&D contributes to India's economic development. R&D expenditure promotes technological advancements, encourages innovation, and improves the competitiveness of industries.
- 4. Social Welfare Expenditure:** Effective implementation of social welfare programs and targeted transfer payments has been shown to alleviate poverty and reduce income disparities. This, in turn, stimulates economic growth by increasing consumer spending and enhancing social inclusion.

### The Importance of Efficient Public Expenditure

While public expenditure is essential for economic growth, it is equally important to ensure that it is efficient. Inefficient public expenditure can lead to wastage of resources and corruption. The study found that inefficient public expenditure can have a negative impact on economic growth.

### Suggestions:

- 1.** The government has invested heavily in infrastructure projects such as highways, airports, and ports. It has also increased spending on social welfare programs such as healthcare and education.
- 2.** The government must put a strong emphasis on accountability and openness to guarantee effective public spending. It should put policies in place to avoid corruption and make sure that public monies are used for what they are intended for.
- 3.** The government should also prioritize investments in sectors that have a high multiplier effect, such as infrastructure and education.

### Conclusion

In conclusion, government spending is a key factor in India's economic expansion. Investments made by the government in infrastructure improvement, education, and healthcare have increased economic activity and resulted in the creation of jobs. However, a budget deficit and inflation driven due to excessive spending by the government may hinder growth in the economy. To guarantee sustained economic growth, the government must therefore establish a balance between expenditure and income creation.

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### **Conflict of Interest**

The author declared no conflict of interest.

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