International Journal of Movement Education and Social Science
IJMESS Vol. 7 Special Issue 02 (Jan-June 2018) www.ijmess.org
ISSN (Print): 2278-0793
ISSN (Online): 2321-3779

Public expenditure and its effects on economic growth: with special reference to jammu and Kashmir state

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ABSTRACT

The goal of this research is to investigate empirically how government expenditure contributes to economic growth in Jammu and Kashmir. Economic growth is an important factor for economic development of a country. The relationship between public or government expenditure and economic growth has been debated for decades and has not clearly stated yet. Moreover, the classification of government expenditure indicates that only housing sector expenditure and development expenditure significantly contribute to a lower economic growth. Education, defense, healthcare, and operating expenditure do not show any significant evidence of its effects on the economic growth. Government spending has been used extensively as fiscal policy by the government in many countries, but its effects on economic growth is questionable. The difficulties of assessing the effect of public intervention in the underdeveloped economies may be summed up in the preposition that underdeveloped countries are caught in a contradiction, a virtual vicious circle, thus: the underdeveloped countries are such because the domestic and international market mechanism needed to initiate the development process. Public expenditures have played an important role in shaping the physical and human capital over a period of time. This paper will try to highlight that appropriate public spending can be effective in promoting economic growth, even in the short term.

Key Words*: *Economic growth, Fiscal policy , Government spending, Jammu & Kashmir State, Public expenditure.

I.INTRODUCTION

Jammu and Kashmir is an Indian state that has its own distinct and peculiar cultural ethos. The state has a predominant place as it shares the international boundary with Pakistan and China. It is enriched with the boundless beauty of snow-clad mountains, large natural lakes, forests, rivers and springs. The slow growth of the state of Jammu and Kashmir can be attributed to various factors. The climate and the armed militancy in Kashmir during the past decade has been a major factor. The trend in the development of Jammu and Kashmir is not encouraging. It has been lagging behind most of the states in regard to the Net state domestic product

(NSDP) at current prices. The average annual growth of Net state domestic product at current prices during 1980-81 to 1999-2000 was 12.45 per cent for Jammu and Kashmir against 15.01 per cent, 14.28 per cent, 13.83 per cent and 14.3 per cent for Andhra Pradesh, Gujarat, West Bengal and Kerala respectively. In 2016-17 and 2017-18, the state's economy is projected to grow at 7.6% and 7.8% respectively. This is in line with the growth of 7.8% in the year 2015-16. In 2014-15, the state saw economic decline of 1%.Government expenditures can be divided into (a) capital expenditure, which affects the assets and liabilities of the state, and (b) revenue expenditure, which includes the rest of the expenses. Total capital expenditure is proposed to be Rs 30,653 crore, which is an increase of 62.1% over the revised estimates of 2016-17. This includes expenditure which leads to creation of assets, and repayment of loans, among others. Total revenue expenditure for 2017-18 is proposed to be Rs 48,819 crore, which is an increase of 14.7% over revised estimates of 201617. This expenditure includes payment of salaries, administration of government programs, etc. The total expenditure in 2017-18 is targeted at Rs 79,472 crore. The revised estimate for the total expenditure in 2016-17 was Rs 61,480 crore, which is 4.9% (Rs 3,189 crore) lower than the budgeted target of 2016-17. There are many irregularities in the state leading to public outcry and there was increasing fraud in government activities resulting from an inappropriate public finance planning and implementation mostly in some of the developing countries. Banks and businesses were collapsing thereby leading to crisis of confidence in internal and external activities in the economy. One of the hills that caused this is corruption, indiscipline, lack of accountability which is the hall marks of our society in developing countries resulting into decrease in growth and development. Economic theory does not automatically generate strong conclusions about the effect of government expenditure on economic performance. Indeed, most economists would agree that there are circumstances in which lower levels of government spending would enhance economic growth and other circumstances in which higher levels of government spending would be desirable. If government spending is zero, presumably there will be very little economic growth because enforcing contracts, protecting property, and developing an infrastructure would be very difficult. Economists are of two different views about the role of government in economic activities. According to the neo-classical economists, reducing the role of private sector by crowding out effect is important because it reduces the inflation in the economy; increase in public debt, increases the interest rate which reduces inflation in the economy as well as output. The new Keynesians present the multiplier effect in response and argue that the increase in government expenditure will increase demand and thus increase economic growth. The vision of ensuring sustainable economic development and reduction of mass poverty is enshrined, in one way or another, in the government's development strategy documents of virtually all developing economies. Public expenditures have played an important role in physical and human capital formation over a period of time. Appropriate public expenditures can also be effective in boosting economic growth, even in the short run. Therefore, the effect of public expenditures on economic growth may be a comprehensive indicator of public expenditure productivity. Ideally, the two components of such an indicator should be measurable: the contribution of public sector outputs to economic growth, and the efficiency with which these expenditures yield their outputs. . Public expenditures have played an important role in shaping the physical and human capital over a period of time. Appropriate public spending can be effective in promoting economic growth, even in the short term. Therefore, the effect of public spending on growth can be a complete indicator of the productivity of public spending .

II.MEANING AND ESSENCE OF PUBLIC EXPENDITURE

There are some essential functions that governments perform in many countries, and that cannot be done by the private sector, for example, national defense, security and territorial integrity, ensuring social welfare, the establishment of a legal framework, development of industries and infrastructure etc.. These functions spend considerable public funds. Public expenditures are closely related to the existence of the state and his functions. With the enforcement of the role of the state have increased the costs of public spending .Two features of public spending are: 1-they serve to meet the collective needs and interests for public 2 - and they are spent money So public spending are money expenditures that makes the state and other entities for meeting legal and political needs for collective and public interests. In developing countries, public expenditure policies deal with accelerating economic growth, development and employment opportunities to play an important role in reducing the level of poverty and income distribution. We should make a distinction between public expenditure and revenue, because the first should be determined the public spending to finance the public needs in order to determine after public revenues, as a funding source of public spending. Public expenditures used to meet certain social needs, different in scope and structure as: a. the general public needs (state administration needs, keeping foreign embassies in the world, armada financing, granting of subsidies) b. joint and collective needs (the needs of education, culture, science, health, security service pension and disabled) c. economic nature needs of the state (state intervention in the economy, in international economic relations, investment in infrastructure etc.)

Public expenditure is the expenditure incurred by public authorities- central, state or local governments either for the satisfaction of collective needs of the citizens or for promoting their economic and social welfare or for protecting the citizens and the country. Just as consumption is the end of all economic activities, so also public expenditure is the end of all financial activities of the state. It is aimed to provide maximum socio- economic welfare of the society. Public expenditure is concerned to be the backbone of economic growth and development of a country. Economic growth refers to sustained increase in country's output of goods and services or more precisely product per capita. Economic growth represents the expansion of a country's potential GDP or output.

III.RELATIONSHIP BETWEEN PUBLIC EXPENDITURE AND ECONOMIC GROWTH

The relationship between government expenditure and economic growth has continued to generate a series of controversies. While some researchers conclude that the effect of government expenditure on economic growth is negative and insignificant (Akpan, 2005) and (Romer, 1990), others indicate that the effect is positive and significant (Korman and Bratimaserene, 2007) and (Gregorious and Ghosh, 2007). There are some components of government expenditures that are productive while some are unproductive. Government expenditures on health and education raise the productivity of lab our and increase the growth of national output. Education is one of the important factors that determine the quality of labour. Government expenditure on health could lead to economic growth in the sense that human capital is essential to growth. Good investment in the form of national defense is a necessity for safeguarding and protecting the nation from outside aggression, while agriculture, in the form of food security, is a necessity for human existence, but the financial source for public expenditure which is taxation, reduces the benefits of the taxpayers and as such reduces the benefits associated with economic growth (Barro, 1990). Consequently, due to lack of sufficient revenue, there is a need to categories productive and nonproductive government expenditure in order to reduce the non-productive expenditure. There are two main theories in economics about the relationship between government spending and economic growth that have different views about this connection. While Keynesian macroeconomic theory assumes that increasing government spending will have a tendency to run us into higher aggregate demand and ensuring a rapid increase of economic growth. Wagner's theory is oriented toward an opposite opinion. The latter claims that national income growth causes more costs to government. The question whether the increase in public spending growth will bring policymakers divided into two separate camps theoretical, with preference for small government or big government. Economic theories would suggest that in some cases lower levels of government spending will cause economic growth, while in other cases the high levels of government spending would be more preferable.

IV.REVIEW OF PREVIOUS LITERATURE

A variety of empirical studies, based on time-series or cross-country data, have aimed at estimating the contribution of public expenditures to economic growth. Some studies relate aggregate public expenditures to economic growth; others focus on the relationship between certain expenditure components, such as public investment, education or health expenditures, or their components, and economic growth. There are some studies (V.Shivaranjani(2010), Devarajan, Swaroop, Zou(1996), Anuradha De And Tanuka Endow (2008)) which find developing countries like Bolivia , Nepal has positive relation for long run growth(unidirectional) while South Korea has positive bidirectional impact. Some studies findeveloping countries like Nigeria , Malaysia, Turkey ,Kenya has no/ weakly relation between public expenditure and economic growth. All those studies comprise with GAP among different countries economic status regarding importance of public expenditure for economic growth. This study is an attempt to investigate the role of public expenditure in long run economic growth in India.

V.CONCLUSION

Economic growth, which can be defined as sustainable growth in real GDP, is the overriding objective of Jammu & Kashmir State like other states in their effort to minimize poverty levels and achieve sustainable economic development. Fiscal instruments are deemed to be essential in creating opportunities for widening the base at which developing countries could grow. Among fiscal instruments, government spending, which is the focus of this study, is very important for these underdeveloped states. It follows that to achieve accelerated economic growth and sustainable development, government spending should be such that it creates a conducive environment for the private sector development and repairs market failures. In this case, the empirical study of the effects of government spending on economic growth has paramount importance to draw important policy implications. One of the most important factors, which are given a special attention, is the role and size of public spending, where his positive link between economic growths is a undisputed fact .So, the role and size of public spending is considered as an element key for economic growth and development. This result is particularly relevant for policymakers as it implies that, when considered jointly with the bulk of economic expenditures, education and health have a positive impact on growth, both in the short and the medium-term. The composition of public spending evolves as growth dynamics unfold to focus on those productive sectors/activities that are more conducive to growth. In this respect, policy makers should plan and implement jointly social and economic spending, as part of an integrated strategy, and attempt to gradually reduce allocations to unproductive spending—despite the fact that distinguishing a priori between productive and unproductive outlays may not always be easy. Our overall conclusion therefore is that public spending can be a significant determinant of growth, if countries are able to devote a significant fraction of these expenditures to productive uses. Therefore, the government should increase their public expenditure to encourage economic growth. Government should ensure that capital expenditure and recurrent expenditure are properly managed in a manner that it will raise the nation's production capacity. Government should direct its expenditure towards the productive sectors like education as it would reduce the cost of doing business as well as raise the standard living of poor ones in the country .Situations where successes should have been recorded, corruption, cultural background, lack of transparency, poor accountability and probity have spoiled growth and development. It is evident that data in use have not been updated by environmental analysts; therefore majority of the economic policy decisions need further review.

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