

Effect of Fiscal Policy on Growth in India

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Abstract : The impact of government spending and taxation on economic growth has remained a central issue of fiscal policy analysis. There is a wide range of opinions over the strength of fiscal policy's effect on macroeconomic variables. It can be argued that the impact of fiscal policy depends on the structure and economic condition of the economy. This study makes an attempt to examine the effect of fiscal policy shocks on growth in India using the structural vector autoregressive model (SVAR), considering data from 1950 to 2019. The study finds that government spending is an important instrument of growth in India, where the share of revenue expenditure to capital expenditure plays a key role. The optimum composition of total expenditure is important for growth and it is not necessarily true that capital expenditure multiplier is more than revenue expenditure multiplier. The study also finds that the impact of public economic activities on private economic activities for both consumption expenditure and gross capital formation of government crowds in private consumption expenditure and private gross capital formation, respectively, thus indicating that government expenditure complements private expenditure in India.

Keywords : government spending, fiscal policy, multiplier, growth

Conference Title : ICPFPEPP 2022 : International Conference on Public Finance, Public Economics and Public Policy

Conference Location : Paris, France

Conference Dates : September 20-21, 2022