ABSTRACT

The link between public expenditure and economic growth has attracted interest of economic researchers and policy makers at theoretical as well as empirical levels. Two strong but opposing views exist in the public expenditure literature, namely, the Keynesians - government spending is an important policy tool to be used to ensure a reasonable level of economic activity, correct short-term cyclical fluctuations in aggregate expenditure, and the opposite view is of Wagner’s –that excessive government intervention in economic activities crowds out and distorts the activities of other economic agents. The size of the public sector is increasing and such continuous expansion is convoyed by expansion of national output. The first objective of study is to find out compounded annual growth rate of expenditures, rank them among all the other expenditure of specific country and rank countries by expenditure CAGR. The second objective is to determine the long run relationship and impact of selected public expenditure on economic growth variables in selected developing countries. Kao Cointegration test and bias corrected least square dummy variable model developed by Bruno (2005) were applied for the long run relationships and to know impact respectively. From the results, it was found that the all the selected expenditure are long run cointegrated with selected variables of economic growth (per capita GDP, HDI, real per capita) individually. This study reveals that Health, General government final consumption expenditure, Telecom and Transport expenditure have positive impact on economic growth while military and education expenditure found insignificant. Then, the third objective is the prediction of economic growth. Results found that dependent variables values predicted are very much close to actual values. RMSE test is found minimum in all three models which is a sign of good model. It is recommended that demand-side interventions are necessary, but the equity goals of the State should not be ignored. Government’s ongoing funding norms should be reviewed to provide more equity in public expenditure and financing. Accordingly, fulfilling the overriding objectives of poverty reduction and economic growth require these countries to devote much of their valuable resources in such development endeavors.