

ABSTRACT

This paper attempts to calculate the estimates for government spending multipliers for India and tries to test if the composition of government spending is instrumental in determining its impact on output growth. This is undertaken by considering three components of government spending in India- public investment, railway investment and defence revenue expenditure. The paper also analyses the differentials in estimates of multipliers and thus effectiveness of different forms of government spending when financed through increase in taxes or increased market borrowing. Hence, an attempt is made to provide suitable empirical evidence to aid policymakers in India in resolving the current predicament regarding the suitable fiscal policy in face of twin conflicting objectives of fiscal consolidation and the need for increased public investment to remove infrastructural bottlenecks which are a major hurdle in economic development in countries like India.