

**GOVERNMENT AND ECONOMIC GROWTH IN INDIA:  
IMPACT OF SIZE AND COMPOSITION OF EXPENDITURE**

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**ABSTRACT**

With the spread of the concept of welfare state, the size and role of government in the economy have increased in most countries amounting to a significant proportion of the national output. Existing literature considers the advantages and disadvantages of having a government that is much larger or much smaller than what is required. It stresses the need for determining the optimal size and structure of government for maximising economic benefits. Using econometric modeling including the 'Armey Curve', this study finds that the present government size in India (21.6 percent) is close to its optimal size (22.7 percent). However, evidence suggests that economic growth can be strengthened by bringing about changes in the composition of expenditure while maintaining the present level of government size. In particular, more capital expenditure and less interest payments relative to total expenditure would strengthen the growth momentum of the economy.