ABSTRACT

In India, Public expenditure as a percentage of the total national output has significantly increased over a period of time (from 1950 to 2010). Public expenditures are the most available, easily measured, and widely used indicators of the scope of public sector activity; it can be termed as government size. On the other hand, India has made remarkable economic progress (increase in overall output, i.e., value of agriculture, industry and service sector as well as level of urbanization) in recent times. In this context; this paper seeks to examine the causal relationship between government size and economic growth for 15 states over the period of 1993-2008. After examining the causal relationship through Granger Causality Test we want to form a dynamic panel model to see the spatiotemporal impact of economic growth on government size. We find two-way causality for 12 states having tax buoyancy greater than one and one-way causality for 3 states with tax-buoyancy less than one. The study also shows positive spatio-temporal impact of control variables on government size.