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Determinants of Government Spending, Its Impact on Public Welfare, and The Role Of Economic Growth: A Literature Review

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ABSTRACT

This study delves into the multifaceted factors that influence government expenditure and its subsequent effects on public welfare, with a particular focus on its impact on economic growth. Government spending plays a pivotal role in shaping economic development, enhancing public welfare, and alleviating poverty. By conducting a systematic literature review, this research methodically evaluates a range of pertinent sources to gain a comprehensive understanding of these dynamics. The findings indicate that strategic government expenditure, particularly in areas such as infrastructure, education, and technology, is instrumental in driving economic growth and improving public welfare outcomes. Investment in infrastructure not only facilitates more efficient business operations but also creates jobs and improves living standards. Similarly, funding education ensures a more skilled workforce, which can foster innovation and productivity. Investments in technology can lead to advancements that spur economic development and enhance quality of life. However, the study also emphasizes that the effectiveness and optimal allocation of government spending are critical factors in realizing these benefits. Effective expenditure strategies, therefore, must be well-planned and targeted. The insights derived from this study provide valuable guidance for policymakers in crafting expenditure strategies that aim to achieve sustainable development and long-term economic stability.
Keywords: *Economic Growth, Government Expenditure, Human Development, Literature Review, Public Welfare*

INTRODUCTION

Government spending plays a crucial role in promoting economic growth, enhancing public welfare, and alleviating poverty. Research indicates that such spending positively influences economic growth (Nasir et al., 2021; Dudzevičiūtė et al., 2018), which can, in turn, elevate people's welfare and reduce poverty levels. Strategic allocation of government funds towards infrastructure, education, and technology can further stimulate economic growth (Tendengu et al., 2022). Moreover, government investment in social programs and public services directly improves public welfare and aids in poverty reduction. Therefore, the government needs to focus on efficient spending strategies to maximize the benefits of economic growth, public welfare, and poverty alleviation. By strategically allocating resources, the government can foster sustainable development and enhance living standards.

Government spending can influence poverty rates in various ways. Increased investment in education and healthcare can contribute to poverty reduction (Jeff-Anyeneh et al., 2020). Specifically, targeted education spending has been shown to effectively lower poverty levels (Dudzevičiūtė et al., 2018). However, the composition of government spending is crucial. If too much is allocated to recurrent expenses without sufficient investment in infrastructure, job creation may be stifled, leading to higher unemployment and worsening poverty (Runtunuwu & Karim, 2018; 2023). Additionally,

the efficiency and magnitude of public spending on education are vital for enhancing socio-economic outcomes and reducing poverty (Liu et al.; Moreno-Enguix & Lorente Bayona, 2017). In summary, strategically directing government resources to sectors that directly benefit the population, alongside robust macroeconomic policies, can significantly reduce poverty and foster economic growth.

The connection between government expenditure and economic growth is intricate and has been extensively researched both theoretically and empirically. Some studies indicate a favorable association between government spending and economic growth (Chude & Chude, 2013; Agbonkhese & Asekome, 2014; Njoku et al., 2014), while others demonstrate an adverse correlation (Landau, 1983; Aschauer & Greenwood, 1985; Grier & Tullock, 1989; Barro, 1990; Devarajan et al., 1996). Additionally, certain research findings do not reveal a significant link between government spending and economic growth (Ansari et al., 1997). Research indicates a positive connection between government expenditures and GDP, particularly in developing nations (Dudzevičiūtė et al., 2018; Nasir et al., 2021). However, other results highlight a negative relationship between government spending and growth in wealthier countries, where an escalation in spending ratios is associated with a reduction in growth rates (Attari & Javed, 2013). Furthermore, the composition of government expenditure, such as capital versus recurrent expenses, is crucial in determining its influence on economic growth (Onifade et al., 2021).

The role of government expenditure is pivotal in driving economic growth, improving public welfare, and alleviating poverty. Nevertheless, the existing body of research presents conflicting findings on its influence on economic growth (Onifade et al., 2020; Dudzevičiūtė et al., 2018; Nasir et al., 2021; Attari & Javed, 2013; Hsieh & Lai, 1994). Various factors such as the composition of spending, institutional quality, and government debt levels can impact the efficacy of government expenditure (Barra et al., 2020). Furthermore, the connection between government spending and public welfare is intricate, leading to diverse effects in sectors such as health and education (Gupta et al., 2002). For policymakers, comprehending these factors is essential for making well-informed budgetary decisions aimed at improving public welfare and mitigating poverty.

The potential impact of government spending on stimulating economic growth and improving public welfare is influenced by various factors, necessitating policymakers to comprehend these determinants in order to make well-informed decisions about budget allocation that can maximize economic growth and subsequently enhance people's welfare. This study seeks to achieve the following objectives: 1) Identify the determinants that shape government spending, 2) Investigate the effects of government spending on economic growth, and 3) Evaluate how economic growth impacts public welfare. The research is anticipated to make a substantial contribution to the understanding and implementation of policies related to government spending, economic growth, and public welfare, ultimately leading to more effective future implementations.

METHODS

This study employs a literature review method to analyze the determinants of government spending and its impact on public welfare through the lens of economic growth. A literature review involves gathering, analyzing, and synthesizing various relevant sources to understand the latest developments in a specific field. This approach enables researchers to identify trends, gaps in research, and theories that either support or challenge previous findings.

The literature review process in this study includes the following steps: 1) Defining the research focus and key questions to be addressed, which center on identifying the determinants of government spending, its effect on economic growth, and how economic growth influences public welfare. 2) Collecting relevant literature from various academic databases, including Scopus for international journals and Sinta 1 and Sinta 2 for Indonesian publications, using keywords like "government expenditure," "economic growth," "human development," and "public welfare." Double quotation marks are used to ensure the keywords are searched as exact phrases. 3) Integrating findings from multiple sources to provide a comprehensive overview of the research focus. 4) Drawing conclusions based on the synthesized findings.

RESULTS AND DISCUSSION

Factors Affecting Government Spending

Government expenditure across different countries is primarily influenced by factors such as population growth, technological advancements, trade openness, governance indicators, and the composition of public spending (Baldacci et al., 2008; Slemrod et al., 1995; Fan et al., 2004; Jibir & Aluthge, 2019). The size and demographic trends of a region's population can significantly affect how governments allocate their budgets (Irandoust, 2019; Pearson et al.; Shelton, 2007; Meltzer & Richard, 1983). Advances in technology often prompt governments to implement policies that increase spending (Jeff-Anyeneh et al., 2020; Dutt, 2013; Garrett, 2001; Pizer & Popp, 2008). Additionally, trade openness can attract foreign exchange to a region, influencing government expenditure (Shaddady, 2022; Jena & Sethi, 2020). Governance indicators, including democracy, stability, and effectiveness, also have a significant impact on government spending decisions (Hsieh & Lai, 1994; Rajkumar & Swaroop, 2008; Hauner & Kyobe, 2010). These factors, along with macroeconomic shocks and the quality of institutions, are crucial in determining the level and composition of government spending across different countries (Asamoah et al., 2016; Calderón et al., 2016; Khan et al., 2020).

Government spending is often shaped by the need to invest in productive sectors that can drive economic growth and enhance public services, such as infrastructure development and fixed assets (Muda & Ridha, 2018; Aschauer, 1989; Ang, 2008). Other factors influencing government expenditure decisions include population growth, investment, and fiscal decentralization (Shaddady, 2022; Badrudin et al., 2018; Sacchi & Salotti, 2016; Martinez-Vazquez et al., 2017; Badrudin & Kuncorojati, 2017; Wandira, 2013). Fiscal decentralization, in particular, plays a critical role, with effective legislation leading to more efficient fund allocation (Muda & Ridha, 2018; Lin & Liu, 2000; Iimi, 2005; Kusuma & Badrudin, 2016; Ginting et al., 2019).

The factors influencing government expenditure vary across countries and are shaped by a range of elements. Population growth, demographic trends, technological progress, and trade openness are significant in determining government spending (Irandoust, 2019; Chen et al.; Shelton, 2007; Uddin et al., 2024). Additionally, institutional factors like governance indicators, political stability, and regulatory quality also play a crucial role in shaping government spending decisions (Kaya & Kaya, 2020; Shaddady, 2022; Mehmood et al., 2023; Meltzer & Richard, 1983). Policymakers must consider the balance between consumptive and productive spending, as well as how public spending impacts economic growth when deciding on budget allocations (B. L. Chen, 2006; Tarschys, 1975; Battaglini & Coate, 2008; Shelton, 2007; Borcherding, 1985). In summary, a combination of economic, income, political, and governance-related factors influences the formulation and implementation of public expenditure on a global scale.

Effect of Government Spending on Economic Growth

According to studies conducted by Glomm & Ravikumar in 1997 and Wu et al. in 2010, government spending has a significant impact on economic growth, leading to increased output and positive externalities. However, Easterly & Rebelo in 1993, representing the classical perspective, argue that the effect of government spending on growth may be short-lived. Babatunde's research in 2018 also suggests that the influence of government spending on economic growth is heavily influenced by the allocation of funds, particularly focusing on development activities rather than administrative expenses. Investments in infrastructure, education, and technology, as highlighted by Tendengu et al. in 2022, Kofi Ocran in 2011, Nasir et al. in 2021, Pratama et al. in 2022, and Attari & Javed in 2013, are key drivers of economic growth through government spending.

The level of economic growth is significantly influenced by the government's involvement in the economy. Investment in infrastructure and human resources through government spending plays a key role in driving economic expansion (Badrudin et al., 2018; Najmuddin, 2020). According to Dudzevičiūtė et al. (2018), the impact of government spending on economic growth can vary, being either positive or negative, depending on the specific context and country. Furthermore, directing government funding towards education, Investigating and innovating some products, along with providing public goods and services, can greatly boost economic growth in the short and long term. (Sasongko & Wibowo, 2022).

Policies that improve the quality of human resources, increase capital investment, and address income inequality can drive economic growth (Teixeira & Queirós, 2016; Badrudin et al., 2018; Aghion et al., 1999; Kurniasih, 2017; Baldacci et al., 2008). Dudzevičiūtė et al. (2018) and Gnangoin et al. (2019) suggest that economic growth can be supported by investing in regulatory quality, political stability, and trade openness. On the other hand, mismanagement of government spending can lead to inefficiencies and discourage private investment (Chu et al., 2020; Awdeh & Hamadi, 2019; d'Agostino et al., 2016; Rahman & Alam, 2021). Excessive government spending on unproductive areas such as social protection can have a negative impact on economic growth (Laboure & Taugourdeau, 2018; Irmen & Kuehnel, 2009). Therefore, the impact of government policies on economic growth depends on their focus, function, and effectiveness.

The economy is significantly influenced by government spending, particularly in the areas of infrastructure and public facilities (Kolawole, 2020; Bose et al., 2007). The quality of human resources and public services is also impacted by government policies. Research conducted by Martin (1999), Suri et al. (2011), and Baldacci et al. (2008) has shown that government spending is essential in driving economic growth and minimizing regional inequalities. Research in EU nations has shown that government spending affects economic growth differently in each country, leading to either positive or negative outcomes. (Dudzevičiūtė et al., 2018). Additionally, a study conducted by Fölster & Henrekson (2001) discovered an inverse correlation between economic growth and government spending, particularly in wealthier countries with high levels of public sector expenditures.

The expenditure by the government can have a beneficial influence on the expansion of the economy., especially when coupled with effective fiscal and monetary policies that promote macroeconomic stability and sustainable development. Various studies (Loizides & Vamvoukas, 2005; Amusa & Oyinlola, 2019; Landau, 1983; Cooray, 2009) have supported this notion. Additionally, research by Selvanathan et al. (2021) and

Samudram et al. (2009) emphasizes the importance of sound fiscal and monetary policies in conjunction with government spending to spur economic growth. Wu et al. (2010) and Olaoye et al. (2019) have also provided evidence that strategic allocation of government spending in sectors such as infrastructure and technology can contribute significantly to economic growth. Furthermore, it has been observed by Glomm & Ravikumar (1997) that government spending on education and infrastructure can directly bolster economic growth. Nevertheless, the impact of government spending on growth is subject to variation based on factors such as institutional quality and corruption levels as highlighted by Wu et al. (2010), d'Agostino et al. (2016), and Aidt et al. (2008). While some studies indicate a positive correlation between government spending and economic growth, others reveal a negative impact, especially in affluent nations as indicated by Nasir et al., 2021; Kofi Ocran, 2011; Attari & Javed, 2013; and Wu et al., 2010.

Government spending, particularly in areas like investment and education, can have a direct and positive impact on economic growth (Barro, 1990). Conversely, other research suggests that directing government funds to non-developmental areas may impede growth since these expenditures do not directly foster economic expansion (Pratama et al., 2022). Moreover, the efficiency and allocation of government spending are crucial factors (E. C. Wang & Alvi, 2011). Reallocating funds to productive sectors can enhance economic growth (Devarajan et al., 1996; Barro, 1990), while excessive spending on non-productive areas can negatively affect growth (Irmen & Kuehnel, 2009; Amendola et al., 2017).

The Effect of Economic Growth on Welfare

Public welfare is assessed by evaluating the overall satisfaction of individuals within a society, reflecting the social conditions they experience. The Human Development Index (HDI) is a valuable measure for comparing public welfare across countries and regions (Amendola et al., 2023). Economic growth plays a crucial role in regional development and affects community welfare (Whiteley, 2000). Regions with higher-quality human resources are generally expected to perform better economically (Bradley & Taylor, 1996). Thus, to achieve robust economic growth, local governments should focus on enhancing human development, which can also help reduce regional inequalities and improve overall community welfare.

Research has demonstrated that economic growth significantly enhances human development by improving the quality of human resources, which, in turn, further stimulates economic growth (Whiteley, 2000; Nashshar & Mulyana, 2022; Badrudin et al., 2018). Additionally, investing in human capital, particularly through education spending, can elevate the quality of human capital, thereby contributing to economic growth (Fleisher et al., 2010; Romer, 1990). The relationship between economic growth and human development is mutually reinforcing, as economic progress enhances individuals' ability to manage resources effectively, which fosters further development (Sabatini, 2008; Suwandaru et al., 2021).

The strong link between economic growth and human development is clear. The Human Development Index (HDI), which measures human development, is essential for promoting economic growth., as noted by Suri et al. (2011) and Anand & Ravallion (1993). By investing in human capital and improving its quality, there can be a boost in economic growth through more efficient resource utilization and technological progress, as indicated by Ahmed et al. (2020), Fleisher et al. (2010), and Black & Lynch (1996). Additionally, the positive influence of human capital quality on economic performance and welfare contributes to economic growth, as highlighted by Ranis et al. (2000).

Economic growth is crucial for advancing human development by enhancing the quality of human resources and improving the management of economic resources (Zia et al., 2021). Studies by Teixeira & Queirós (2016), Wang & Yao (2003), Hatch & Dyer (2004), and Baldacci et al. (2008) demonstrate that investing in human capital boosts its quality, which in turn stimulates economic growth. The link between economic growth and human development is reciprocal (Galor & Tsiddon, 1997); economic progress can improve access to education and healthcare, thereby fostering human development (Baldacci et al., 2008; Teixeira & Queirós, 2016). Overall, economic growth and human development are interrelated, creating a cycle of mutual benefit and societal advancement.

CONCLUSIONS

This study explores the crucial role of government spending in driving economic growth, enhancing public welfare, and alleviating poverty. Properly allocating funds to infrastructure, education, and technology can stimulate economic growth, which in turn improves welfare and reduces poverty. Investment in social programs and public services also directly benefits welfare and reduces poverty. However, the effectiveness of government spending depends on its composition and efficiency; excessive recurrent spending without sufficient investment in productive areas can impede job creation and increase unemployment. The impact of government spending on economic growth varies by context, highlighting the importance of strategic budget allocation. Additional research is needed to further understand these dynamics.

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