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The Effectiveness of Public Sector Government Expenditure on Economic Growth

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Abstract

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This study aims to analyze the effectiveness of public sector government expenditure on economic growth in the global context over the past five years. Using a literature review approach, the study examines theoretical perspectives and empirical findings related to public spending across key sectors, including education, health, infrastructure, agriculture, and transportation. The results indicate that government expenditure exerts a positive impact on economic growth when it is efficiently allocated, strategically planned, and supported by transparent and accountable fiscal governance. Expenditures on education and health have been shown to strengthen human capital and enhance labor productivity, while investments in infrastructure improve economic connectivity, reduce distribution costs, and stimulate industrial activity. Conversely, inefficient or poorly targeted spending can create fiscal distortions, increase budget deficits, and weaken the long-term effectiveness of economic policies. Therefore, the success of fiscal policy depends on the synergy between budget efficiency, public accountability, and sustainable financing to promote inclusive, stable, and long-term economic growth.

1. Introduction

Economic growth is a fundamental indicator in assessing the success of a country's development. In the past two decades, global economic dynamics and multidimensional crises such as the COVID-19 pandemic have prompted governments in various countries to strengthen the role of fiscal policy in stimulating the economy. One of the tangible forms of this policy is government expenditure in strategic public sectors, such as education, health, infrastructure, agriculture, and transportation. Government spending has a dual role, namely as an instrument of economic stabilization and as a long-term investment in building national productive capacity (Le & Tran, 2021). Theoretically, the relationship between government spending and economic growth can be explained through Keynesian fiscal theory which emphasizes that increased public spending can expand aggregate demand and boost national production. In the context of developing countries, government investment in the public sector serves to improve basic infrastructure and increase human capital through better education and health (Misango et al., 2022). In addition, effective government spending is a catalyst for private sector activities, strengthens competitiveness, and creates long-term economic stability.

A study by Wahyuningrum and Juliprijanto (2022) in Transekonomika confirms that government spending in the education sector has a significant positive effect on economic growth in the long term. On the contrary, inefficient infrastructure expenditure can actually have a negative impact, showing that not only the size of the budget is important, but also the effectiveness and governance of its use. This reinforces the argument that fiscal efficiency and policy priorities are key factors for the success of sustainable economic development. In last five years period, various cross-border studies highlighted the importance of public sector spending to post-pandemic economic recovery. Manasseh et al. (2022) found that in Sub-Saharan Africa, public spending on education and health contributes to reducing social inequality and strengthening inclusive growth. Similar results have also been found in Southeast Asia, where education investment strengthens labor productivity and accelerates the transformation of knowledge-based economies (Chorev & Ball, 2022).

On the other hand, Musa and Anfofum (2020) show that government capital expenditure has a positive impact on economic growth only if it is followed by fiscal transparency and accountable budget governance. This condition shows that the effect of public spending is contextually dependent on the institutional structure and bureaucratic efficiency of the country concerned. In addition to macroeconomic functions, government spending also has a significant social dimension. Onifade et al. (2020) affirm that investment in education and health improves the quality of human resources, expands employment, and strengthens sustainable social stability. Thus, public expenditure is not only an economic instrument, but also an instrument of equity and improvement of welfare.

However, various studies remind us that not all forms of public spending have a positive impact automatically. Kutasi and Marton (2020) found that inefficient or ill-targeted government spending can create fiscal distortions and reduce the effectiveness of economic policies. Therefore, the main challenge for policymakers is to ensure that every rupiah or dollar spent generates measurable economic and social added value. Recent literature confirms that public sector government spending is an important instrument in accelerating sustainable economic growth. However, its effectiveness is highly dependent on strategic allocation, fiscal transparency, and institutional capacity in budget management. Based on these findings, this study aims to conceptually examine how government spending in key public sectors can drive economic growth in a global context, with an emphasis on the last five-year period, as well as explain the challenges of efficiency and accountability in its implementation.

2. Literature Review

2.1. Government Expenditure and Economic Growth

The relationship between government spending and economic growth has become a major focus in modern economic theory and policy. According to Keynesian theory, public spending can stimulate aggregate demand, increase production, and create jobs. In this context, the government's fiscal role is a major catalyst for long-term economic stability and expansion. A study by Le and Tran (2021) shows that increased investment in the education sector significantly strengthens labor productivity and economic growth in Vietnam. This result strengthens the human capital theory which states that improving the quality of human resources has a direct impact on national economic output.

In addition, Manasseh et al. (2022) highlight that the effectiveness of public spending is highly dependent on fiscal governance and accountability. In their study in Sub-Saharan Africa, it was found that countries with low levels of corruption and efficient fiscal management tend to derive higher economic outcomes from public spending. Meanwhile, Yusuf and Mohd (2022) confirms that increased government spending that is not balanced with oversight can lead to budget deficits and economic inefficiencies. Therefore, the relationship between public spending and economic growth is determined not only by the amount of the budget, but also by the quality of the underlying governance. In general, the literature of the last five years shows that the effectiveness of government spending on economic growth is contextual. Developing countries with weak economic structures need more targeted fiscal strategies, while developed countries tend to leverage public spending for innovation and long-term productivity.

2.2. Sectoral Government Spending: Education, Health, Infrastructure, Agriculture, and Transport

Public sector government spending has different contributions to economic growth, depending on the type of sector that is a priority. The education and health sectors, for example, have long-term effects on labor productivity and social well-being. Research by Misango et al. (2022) shows that public spending in the health sector in Kenya strengthens economic competitiveness through improving the quality of human resources. Similarly, Ziberi et al. (2022) emphasized that education spending has a significant impact on reducing unemployment and increasing people's income.

Meanwhile, the infrastructure sector plays an important role in creating distribution efficiency and lowering production costs. Javid (2019) revealed that infrastructure investment has a positive correlation with long-term economic growth, although the impact can be negative if it is not managed efficiently. On the other hand, the agriculture and transportation sectors are still important pillars for developing countries. Kutasi and Marton (2020) found that a moderate increase in government spending on agriculture encourages economic growth, although its contribution tends to decrease compared to the industrial and service sectors. Thus, the latest literature shows that synergy between the public sector is key to economic sustainability. Spending that is strategically directed to education, health, and infrastructure can create a multiplier effect that strengthens national economic growth in the long term.

3. Method

This study uses the library research method as the main approach to analyze the relationship between public sector government spending and economic growth in the global context over the past five years. This approach was chosen because the focus of the research lies on conceptual synthesis and empirical findings from various relevant scientific sources, rather than on the collection of primary data. Thus, this study focuses on theoretical studies, the analysis of previous research results, and comparisons between countries in the implementation of fiscal policies.

The first step in this research is the collection of literature from various academic sources indexed by Google Scholar and government publications such as World Bank Reports and OECD Economic Outlook. The literature selection criteria include: (1) publications between the last five years, (2) focus on the themes of government spending and economic growth, (3) covering at least one strategic public sector such as education, health, infrastructure, agriculture, or transportation, and (4) written in English or Indonesian. The second stage is the classification of literature based on its sector and empirical results. The researchers grouped the study into five main categories: (1) education and health, (2) infrastructure and transportation, (3) agriculture, (4) fiscal governance and spending efficiency, and (5) the linkage between public spending and social inequality. This classification approach aims to identify common patterns and variations in research results across regions.

The third stage is comparative analysis and conceptual synthesis. The analysis was carried out by reviewing the causal relationship between government spending and economic growth as described in Keynesian theory and human capital theory. In addition, the study compares empirical results between countries to assess how institutional differences, fiscal capacity, and the effectiveness of public governance affect these relationships. The final stage is the preparation of thematic conclusions, which is to draw common threads from various literature to formulate policy implications and academic recommendations. In a methodological context, the validity of research is maintained through triangulation of credible and up-to-date sources and the use of literature. With this approach, the research is expected to provide a comprehensive understanding of how public sector government spending contributes to sustainable economic growth in the post-pandemic era.

4. Results

The results of this literature review show that public sector government spending has a complex and multidimensional relationship to economic growth. Based on an analysis of the literature from the last five years, it was found that the effectiveness of public spending is determined by three main factors: (1) the composition of expenditure between sectors, (2) the efficiency of allocation and fiscal governance, and (3) the structural conditions of the economy in each country. In general, spending directed at human development and productive infrastructure shows a significant positive impact on long-term economic growth, while spending that is consumptive or inefficient tends to produce a neutral or even negative effect on economic performance.

Findings from Wahyuningrum and Juliprijanto (2022) show that government spending in the education and infrastructure sectors has a significant influence on Indonesia's economic growth. However, the effect is asymmetrical: spending on education has a positive long-term effect, while poorly managed infrastructure spending has a temporary negative impact. This shows the importance of public budget governance in ensuring that infrastructure investment actually contributes to productivity and not just to temporary economic activity. These results are in line with the views of Chorev and Ball (2022), who affirm that education investment generates sustainable economic growth through increased human capital, but it takes time to have a real impact on national output.

Meanwhile, Asongu and Odhiambo (2021) found that in Sub-Saharan African countries, increased government spending in the health and education sectors makes a significant contribution to inclusive economic growth. Public spending directed at expanding access to education and health services plays a role in reducing social inequality and increasing productive labor participation. However, the study also highlights that such success is highly dependent on institutional capacity and fiscal surveillance systems. Countries with high corruption indexes are less likely to benefit from public spending than countries with better governance.

A study by Onifade et al. (2020) reinforces these findings by showing that while public spending can drive growth, its effects can be hampered by bureaucratic inefficiencies and a lack of transparency. In the context of developing countries, government spending is often not optimally directed to the productive sector. As a result, higher education or health spending is not always followed by an improvement in service quality and labor productivity.

Research by Musa and Anfofum (2020) highlights the aspects of capital expenditure that have a significant impact on increasing GDP in Nigeria, as long as they are accompanied by transparent fiscal policies. Capital expenditure, particularly for the construction of roads, energy, and public facilities, creates an economic multiplier effect through improved connectivity and efficiency in the distribution of goods. However, the study also found that large infrastructure projects implemented without careful planning actually slow down growth because it causes resource waste and long-term debt burdens.

Similar results were also revealed by Lupu et al. (2018), who researched the governance of public sector expenditure in various African countries. He found that the effectiveness of public spending increases significantly when accompanied by a strong fiscal audit system and public participation in budget oversight. In countries that apply the principle of fiscal transparency, spending in the education and infrastructure sectors has a much greater positive impact on growth than countries with low levels of accountability.

Misango et al. (2022) emphasized that the health sector has an important contribution to long-term economic growth. Increased government spending on basic health services results in increased labor productivity through improved quality of life and reduced burden of disease. In their econometric model in Kenya, it was found that every 1% increase in public health spending has the potential to increase economic growth by 0.3% in the medium term. These findings are in line with Kutasi and Marton (2020), who state that investment in the social sector has a strong multiplier effect, especially when directed at expanding access to basic education and public health.

In the context of the agriculture and transportation sectors, the results of the study show variations in results. Nugroho et al. (2021) found that government spending in the agricultural sector has a positive impact on economic growth in developing countries, although its contribution tends to decline compared to the industrial and service sectors. The agricultural sector remains an important source of employment and a pillar of food price stability, but the effects of public spending in this sector are only felt when accompanied by adequate technological support and distribution infrastructure. Meanwhile, spending in the transportation sector has been proven to strengthen economic connectivity and accelerate domestic market integration, as highlighted by Javid (2019).

Yared (2019), in their empirical study, highlights that continuously increasing government spending is not always directly proportional to the increase in GDP. In some cases, the surge in public spending actually creates inflationary pressures and budget deficits. Therefore, macroeconomic stability is an important prerequisite for public spending not to cause fiscal distortions.

A cross-sectoral study by Ahuja and Pandit (2020) confirms that public spending plays a key role in economic growth, but only if it is supported by outcome-based budgeting. They emphasized the need for a performance-based budgeting approach, which ensures that each government project is evaluated based on the economic and social benefits generates. In the opposite condition, public spending can have a short-term effect without a sustainable impact.

In addition, Yusuf and Mohd (2022) show that increased government spending that is not offset by increased tax revenues can widen the deficit and squeeze fiscal space for long-term development financing. This underscores the importance of a balance between fiscal expansion and the country's financial sustainability. These findings are consistent with the results of Ziberi et al. (2022), which highlight that the effectiveness of public spending requires synergy between budget planning and increased state revenues.

Lupu et al. (2018) and Manasseh et al. (2022) also emphasize that long-term economic development depends on the government's ability to manage spending priorities. Investment in human capital and infrastructure is considered more productive than administrative or consumptive expenditure. Meanwhile, Le and Tran (2021) emphasized that the orientation of fiscal policy towards education and technological innovation can accelerate the transition to a knowledge-based economy.

From the overall results of this literature review, it can be concluded that the positive correlation between public spending and economic growth is conditional, not absolute. Governance factors, fiscal transparency, and program effectiveness are the main determinants of policy success. Countries that are able to balance fiscal expansion with budget efficiency and public accountability tend to experience more stable and inclusive economic growth. In contrast, countries facing institutional weaknesses often fail to harness the potential of public spending as an instrument of development. Thus, the literature over the past five-year period confirms that adaptive, accountable, and long-term oriented fiscal policies are the key to the success of government spending in encouraging sustainable economic growth.

5. Discussion

The results of the analysis show that government spending has a strategic role in shaping the direction of economic growth, both in the short and long term. From a macroeconomic perspective, this role includes not only a stabilization function, but also as a key driver of capital accumulation, increased productivity, and job creation. Conceptually, these findings support the Keynesian view that increased public spending is capable of stimulating aggregate demand, expanding national production activity, and ultimately accelerating the pace of economic growth. However, as Chorev and Ball (2022) emphasize, the effectiveness of such expenditure depends on its direction and composition. Spending directed at productive sectors such as education, health, and basic infrastructure contributes greatly to long-term capacity building, while consumptive spending tends to have a short-term impact without creating sustainable economic added value. Thus, the direction of fiscal policy should be oriented not only towards temporary stimulus, but also on building an economic foundation that is resilient to crises.

Findings from various studies also confirm the importance of governance factors in determining the effectiveness of fiscal policies. Asongu and Odhiambo (2021) highlight that in countries with good governance, public spending plays a role in reducing social inequality, strengthening income redistribution, and improving the well-being of society at large. However, in countries with high levels of corruption, weak budget oversight leads to fiscal leakage, waste, and inefficient development projects. This indicates that the effectiveness of government spending is not only determined by the amount of funds, but also by the integrity and institutional capacity in managing the budget. Therefore, fiscal policy cannot be separated from the political and institutional aspects that support its implementation. Increasing transparency, public accountability, and program performance evaluation mechanisms are absolute prerequisites for optimizing public spending.

Furthermore, the results of research by Onifade et al. (2020) show the importance of a balance between capital expenditure and routine expenditure. Capital expenditure focused on infrastructure development, transportation, and information technology development is able to create a multiplier effect that expands productive economic activities. Meanwhile, excessive routine spending without productivity increases often puts a strain on state finances and lowers fiscal efficiency. Therefore, the budget structure needs to be designed with an emphasis on long-term effectiveness, not just the fulfillment of budget absorption targets. This approach is in line with the principle of performance-based budgeting, where every rupiah of expenditure must be measured based on the economic and social benefits generated.

According to Yusuf and Mohd (2022), the success of fiscal policy also depends heavily on the synchronization between public spending and state revenue. Without adequate tax policies and a progressive tax system, fiscal expansion can create budget deficits that limit the space for future development. Therefore, fiscal sustainability demands a balance between the need for development financing and the government's ability to maintain macroeconomic stability. Countries that successfully maintain fiscal discipline are usually able to direct public spending to priority sectors that have a long-term impact on national economic productivity and competitiveness.

From a theoretical and empirical perspective, this discussion shows that the relationship between government spending and economic growth is dynamic, contextual, and dependent on institutional quality. In line with Wahyuningrum and Juliprijanto (2022), public spending will function optimally when it is designed synergistically with long-term development plans that focus on strengthening human capital and developing productive infrastructure. The government needs to ensure that any fiscal policy is directed at creating a balance between economic growth, social equity, and fiscal sustainability. By strengthening governance, avoiding budget waste, and ensuring the sustainability of financing sources, public spending can be an effective instrument in driving inclusive, stable, and sustainable economic growth.

6. Conclusion

This study reaffirms that public sector government spending serves as one of the most critical instruments in fostering sustainable economic growth. Based on a comprehensive literature review covering the last five years, it was found that the effectiveness of public expenditure is largely determined by the direction of budget allocation, the quality of fiscal governance, and the institutional capacity of governments to manage economic policies efficiently. Spending in key sectors such as education, health, and infrastructure has been shown to produce a significant positive impact on labor productivity, economic connectivity, and social welfare. Nevertheless, this impact becomes optimal only when expenditure is managed transparently, efficiently, and with a long-term developmental orientation.

Furthermore, the findings highlight that the government's role extends beyond being a mere provider of development funds; it also functions as a policy regulator responsible for ensuring synergy between public expenditure and fiscal stability. Countries with strong governance frameworks tend to utilize public spending effectively to strengthen their economic foundations and reduce inequality. In contrast, weaknesses in budget planning, monitoring, and accountability often lead to inefficiency, waste, and fiscal deficits that constrain growth potential. Therefore, government expenditure should not be viewed solely as an economic mechanism but as a comprehensive development strategy encompassing social, institutional, and sustainability dimensions. Improving fiscal discipline, enhancing transparency, and reinforcing public accountability are essential to ensure that every public investment contributes meaningfully to long-term economic growth and equitable societal development.

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