Indian Economy · GS - III

Why is the quality of government expenditure as important as fiscal deficit reduction? Discuss with reference to capital expenditure and long-term economic growth.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 29/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Fiscal consolidation, capital expenditure, revenue expenditure, fiscal multiplier, infrastructure, private investment, productive capacity

Model Answer

Fiscal consolidation aims to maintain sustainable public finances by controlling deficits and debt. However, the quality and composition of government expenditure are equally important because different forms of spending have different economic effects.

Importance of expenditure composition

1. **Capital formation:** Spending on roads, railways, ports and energy infrastructure creates productive assets and strengthens the economy's long-term capacity.

2. **Growth multiplier:** Capital expenditure can generate demand across construction, steel, cement and manufacturing sectors, while improving productivity over time.

3. **Private investment:** Public infrastructure reduces logistical and operational costs, encouraging private investment through a crowding-in effect.

4. **Revenue expenditure pressures:** Subsidies, interest payments and committed expenditure can reduce fiscal flexibility when they grow faster than revenue receipts.

5. **Fiscal sustainability:** Unproductive expenditure and persistent deficits may increase borrowing requirements, debt servicing costs and pressure on future budgets.

The policy challenge

Reducing capital expenditure may help achieve a short-term deficit target, but excessive cuts can undermine infrastructure development and future revenue-generating capacity. Governments should instead improve tax compliance, rationalise poorly targeted subsidies, enhance expenditure efficiency and prioritise high-return investments.

Conclusion

Fiscal discipline should not become an exercise in indiscriminate expenditure reduction. A sustainable fiscal strategy must combine deficit management with productive capital investment to support inclusive and long-term economic growth.

BECOME IAS
AI POWERED UPSC PREP