

Effect of government spending on total factor productivity in South Africa

Juniours Marire

*Department of Economics and Economic History,
Rhodes University, Grahamstown, South Africa
ORCID ID: <https://orcid.org/0000-0002-6648-7582>*

Abstract

Current discourse shows that South Africa is failing to unlock long run growth because government spending on fixed capital has been declining since the mid-1990s. Existing South African literature does not examine the effect government spending on total factor productivity (TFP). The effect of government consumption and capital spending on TFP is examined using data for the period 1960-2019. The paper employs a non-linear autoregressive distributed lag modelling framework. Private fixed capital, government fixed capital and government final consumption spending have asymmetric effects on TFP. Private fixed capital has a positive relationship with TFP, but government fixed capital has mixed effects on TFP – distinctly positive effects in the short run and mixed effects in the long run. Government final consumption expenditure has an inverse relationship with TFP in both the short run and the long run. Further, findings show that increases in private fixed capital have increasing multipliers on TFP over time, while government final consumption has decreasing multipliers over time. Decreases in government fixed capital spending have increasing multipliers on TFP, suggesting that the solution to unlocking TFP lies in improving the productivity and efficiency of existing public capital rather than expanding the scale of investment.

Keywords: government final consumption, government fixed capital, non-linear autoregressive distributed lag, private fixed capital, total factor productivity.

JEL Codes: D24, H53, H54

Full Text: [PDF](#)



This work is licensed under [Creative Commons Attribution 4.0 License](https://creativecommons.org/licenses/by/4.0/).

European Journal of Economics, Law and Social Sciences ISSN 2519-1284 (print) ISSN
2510-0429 (online)

Copyright © IIPCCCL-International Institute for Private, Commercial and Competition law