Fiscal Policy And Economic Growth World Bank

This paper surveys the theoretical and empirical literature on the relationship between taxation and public expenditure and economic growth. Particular attention is paid to the effect of taxation and government expenditure on the supply and productivity of labor and physical capital. Studies suggest that well-targeted government expenditures on health, education, and infrastructure should have a positive impact on growth. By contrast, the impact of taxation on the supplies of labor and capital, and on output growth, is more muted.

This book analyzes the impact of fiscal policy on the growth rate of market economies. Two different frameworks are considered. In the first class of models human capital is formed as a by-product of gross investment. Imposing a weighting function on investment in the building up of human capital, in part new results concerning the effects of fiscal policy as well as the dynamics of the system are derived. In the second class of models the government may influence economic growth by investing in public capital which positively influences the aggregate production function. Growth effects of fiscal policy are analyzed within this model both for the case of a balanced government budget and for the case of public debt. In the latter case different budgetary regimes are considered, to which a government must stick. Empirical evidence is presented in order to underline the plausibility of the outcome of this book.

Fiscal Policy and Economic Growth

This paper explores how fiscal policy can affect medium- to long-term growth. It identifies the main channels through which fiscal policy can influence growth and distills practical lessons for policymakers. The particular mix of policy measures, however, will depend on country-specific conditions, capacities, and preferences. The paper draws on the Fund's extensive technical assistance on fiscal reforms as well as several analytical studies, including a novel approach for country studies, a statistical analysis of growth accelerations following fiscal reforms, and simulations of an endogenous growth model.

The sizeable increase in income inequality experienced in advanced economies and many parts of the world since the 1990s and the severe consequences of the global economic and financial crisis have brought distributional issues to the top of the policy agenda. The challenge for many governments is to address concerns over rising inequality while simultaneously promoting economic efficiency and more robust economic growth. The book delves into this discussion by analyzing fiscal policy and its link with inequality. Fiscal policy is the government's most powerful tool for addressing inequality. It affects households 'consumption directly (through taxes and transfers) and indirectly (via incentives for work and production and the provision of public goods and individual services such as education and health). An important message of the book is that growth and equity are not necessarily at odds; with the appropriate mix of policy instruments and careful policy design, countries can in many cases achieve better distributional outcomes and improve economic efficiency. Country studies (on the Netherlands, China, India, Republic of Congo, and Brazil) demonstrate the diversity of challenges across countries and their differing capacity to use fiscal policy for redistribution. The analysis presented in the book builds on and extends work done at

the IMF, and also includes contributions from leading academics.
Drawing on the work of the classical-Marxian economists and their modern successors, Capitalists, Workers, and Fiscal Policy sets forth a new model of economic growth and distribution, and applies it to two major policy issues: public debt and social security. The book homes in specifically on the problem of fiscal policy, examining the ways that taxation and government spending affect the distribution of wealth and income as well as the rate of economic growth. Thomas Michl's model shows that public debt has a regressive effect on wealth distribution. It also demonstrates that the accumulation of wealth by public authorities, for example, in the form of a pension reserve such as the U.S. social security trust fund, can have a progressive effect on wealth distribution, both directly (since it represents ownership by the citizenry) and indirectly through its general equilibrium effects on the structure of accumulation. The book's findings provide an analytical foundation for a macroeconomic policy of using fiscal surpluses to accumulate a public pension reserve fund that serves to effect a progressive redistribution of wealth.
One view of government fiscal policy is that it stifles dynamic economic growth through the distortionary effects of taxation and inefficient government spending. Another view is that government plays a central role in economic development by providing public goods and infrastructure. This paper develops a generalized model of fiscal policy and output growth that allows for (i) a positive or negative effect of government spending on

private productivity, (ii) increasing or decreasing returns to scale, (iii) a transition path away from the equilibrium growth path, and (iv) intratemporal tax distortions. Using data from 107countries during the period 1970-85, and correcting for the potentially serious problem of endogeneity in government policy, we find that a balanced-budget increase in government spending and taxation is predicted to reduce output growth rates.
Worldwide experience highlights public finance policies that promote economic growth while meeting the need for fundamental public goods. Macroeconomic stability is essential, as large budget deficits retard growth, followed by moderate levels of public spending - around one-third of GDP or less - especially when governance and public administration are weak; that in turn requires efficiency, particularly in areas such as infrastructure, health, education, and social protection; finally, lower income and payroll tax rates can spur investment and employment. The Eastern European and Central Asia countries pioneered flat income taxes without generally suffering revenue losses as a result, but they have not addressed the problem of high payroll taxes and still face many hurdles in improving the efficiency and effectiveness of public spending and revenue generation.
The recent recession has brought fiscal policy back to the forefront, with economists and policy makers struggling to reach a consensus on highly political issues like tax rates and government spending. At the heart of the debate are fiscal multipliers, whose size and sensitivity determine the power of such policies to influence economic growth.

Fiscal Policy after the Financial Crisis focuses on the effects of fiscal stimuli and increased government spending, with contributions that consider the measurement of the multiplier effect and its size. In the face of uncertainty over the sustainability of recent economic policies, further contributions to this volume discuss the merits of alternate means of debt reduction through decreased government spending or increased taxes. A final section examines how the short-term political forces driving fiscal policy might be balanced with aspects of the long-term planning governing monetary policy. A direct intervention in timely debates, Fiscal Policy after the Financial Crisis offers invaluable insights about various responses to the recent financial crisis.
This paper offers possible explanations for three generally observed facts about fiscal policy and development: (F1) The relative size of government increases as an economy develops, (F2) The rise in government and taxation are associated with rising or constant economic growth rates, and (F3) Today's developing countries have larger government sectors than did today's developed countries at similar stages of development. The explanations for these facts are based on the structural transformation from traditional (mostly agricultural) to modern (industrial and post-industrial) production, rising public infrastructure investment, and less representative governments in many of today's developing economies.
Master's Thesis from the year 2016 in the subject Economics - Other, grade: 3.67, , course: Development Economics, language: English, abstract: The study examined the

impact of government fiscal and monetary policies on economic growth within the period of 33 years (1981-2014). Time series data were derived from the Central Bank of Nigeria statistical bulletin, while the method of analysis was the Johansen Cointegration test, vector error correction method and the Wald test of coefficient. The result of the findings showed that there is a significant relationship between explanatory variables (government expenditure, interest rate and money supply) taken jointly and the dependent variable (real gross domestic product) in the long run. The coefficient of error correction term is -0.02 showing a 2% yearly adjustment towards the long run equilibrium. This proves that there is a relationship between the dependent variable-real gross domestic product and the independent variables - government expenditure, money supply and interest rate in the long run. The estimated coefficients of the short run model indicate no significant relationship between the dependent variable real gross domestic product and independent variables government expenditure, money supply and interest rates taken together but individually a short run relationship exist between the fiscal variable (government expenditure) and real GDP and between the monetary variable (money supply and interest rate) and real GDP. The policy implication of these findings is that more strategies needs to be put in place in order to ensure that monetary and fiscal policies taken jointly positively impacts on economic growth the in the shortrun.

Cameroon has experienced periods of economic growth and decline. During the growth period, public expenditures increased the size of the public sector. The decline period, which started in 1986, has been characterized by government expenditures that outstripped revenues. This study analyzes the relationship between public and private investment, stressing the crowding in or crowding out of private investment by public expenditures.

Fiscal policy in Latin America has been guided primarily by short-term liquidity targets whose observance was taken as the main exponent of fiscal prudence, with attention focused almost exclusively on the levels of public debt and the cash deficit. Very little attention was paid to the effects of fiscal policy on growth and on macroeconomic volatility over the cycle. Important issues such as the composition of public expenditures (and its effects on growth), the ability of fiscal policy to stabilize cyclical fluctuations, and the currency composition of public debt were largely neglected. As a result, fiscal policy has often amplified cyclical volatility and dampened growth. 'Fiscal Policy, Stabilization, and Growth' explores the conduct of fiscal policy in Latin America and its consequences for macroeconomic stability and long-term growth. In particular, the book highlights the procyclical and anti-investment biases embedded in the region's fiscal policies, explores their causes and macroeconomic consequences, and asesses their possible solutions.

This paper assesses the efficiency of government expenditure on education and health in 38 countries in Africa in 1984-95, both in relation to each other and compared with countries in Asia and the Western Hemisphere. The results show that, on average, countries in Africa are less efficient than countries in Asia and the Western Hemisphere; however, education and health spending in Africa became more efficient during that period. The assessment further suggests that improvements in educational attainment and health output in African countries require more than just higher budgetary allocations.

Covering a full array of topics in open economy macro and public economics, Fiscal Policies and Growth in the World Economy has been thoroughly revised and extended. The added material in this new edition includes stochastic rational-expectations extensions of the Mundell-Fleming model, the development of a dynamic-optimizing approach of the trade balance, and an entirely new part on issues of international economic convergence, which also contains a comprehensive policy overview. Other chapters have been updated or reorganized, and there is a brief guide to solving typical dynamic macro problems along with a printout of software suitable for numerical simulations. A companion diskette containing solutions in dynamic macro problems and some sample programs is available in GAUSS for IBM. The exercises and solutions manual by Krueger, Ostry, and Yuen has also been updated and extended. Fiscal Policies and Growth in the World Economy has been used successfully in graduate and senior undergraduate courses in international economics and public finance. The objective of this new edition remains the same as before: to treat the major topics in macro and public economics using both traditional and modern approaches. The traditional approach is first explained, from the simple income-expenditure model to the more advanced stochastic Mundell-Fleming model. The modern intertemporal approach is then presented, starting with the simple two-period model and extending it to a full-fledged dynamic model. Other sections review recent developments in the world economy; government spending, budget deficits, and differences across international taxation; and economic growth in the world economy, especially the convergence of income and growth levels across countries.

The wide variation in transition economies raises questions about differences in economic growth, the applicability of transition policies, and the advantages of economic reform. This report seeks to answer these questions.

Sets out principles for conducting fiscal policy in developing countries. Examines the role of public spending in meeting the Millennium Development Goals. Discusses the determinants of fiscal sustainability, the effectiveness of social spending, the limits to absorptive capacity, the volatility of aid flows and their impact on dependency, and a range of other contentious issues.

The analysis of fiscal policy on economic growth has changed fundamentally. Using the example of the large European State and prominent transition country Ukraine, selected modern aspects of fiscal policy are analyzed. First, can a higher degree of fiscal decentralization, in the sense of more freedom for decisions given to lower levels of government, promote economic growth? And if so, under what conditions? Second, which of the potential causes of shadow economic activity are statistically significant, which of them can be influenced by economic and fiscal policy measures, and what is their respective quantitative influence on the shadow economy? Third, is the fiscal equalization system effectively redistributing income among the regions? What is the impact of the redistribution on economic growth and on the donor and recipient regions, respectively? How is fiscal sustainability to be assessed and could relatively simple rules be suggested that would promote a stabilizing influence of fiscal policy on the economy while avoiding crises and improve the long run efficiency of fiscal policy? Finally, to what extent is social policy considered fiscal policy and are there options to raise the efficient use of resources in social policy? Each of these questions is answered on the basis of an analysis and the book includes policy recommendations.

Making Fiscal Policy in Japan is written for those who want to understand the role and performance of fiscal policy as an integral component of macroeconomic policy, and the attendant effects on economic growth. The case explored here is post-Second World War Japan, but the approach is one of international comparison. Ishi traces and analyses the central features of postwar Japanese fiscal policy and considers the institutional framework and policy objectives which shaped the budget process. The first part of the book provides a detailed overview of the topic, with detailed institutional and empirical information. In particular, the role that government played in Japan's postwar economic growth is explored in depth, with specific focus on the four sub-periods of occupation, rapid economic growth, internationalization, and the bubble economy. Part II explains the basic framework of budgets, the budgetary process in Japan, and fundamental strategies of fiscal authority. It looks in depth at the unique aspects of the balanced budget policy for 1953-65 and then at how financial resources for budgeting were automatically generated in a growing economy. The final part analyses specific policy issues in the public sector, among them human resource development, the ageing population and the social security system, tax incentives for export promotion, the Fiscal Investment and Loan Programme, and intergovernmental grant policy. Ishi argues that the Japanese government has been generally passive in guiding the state's economic activities, using fiscal policy to support the private economy rather than directly to influence the economy through deliberate expenditure and tax policies. The approach has been one of enhancing the market rather than of government intervention.