THE IMPACT OF FISCAL POLICY ON ECONOMIC GROWTH: A GLOBAL PERSPECTIVE

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ABSTRACT

Fiscal policy, encompassing government spending and taxation, plays a pivotal role in shaping economic growth. This article explores the theoretical underpinnings and practical applications of fiscal policy, analyzing its impact on economies across different regions and income levels. Drawing on case studies and empirical research, it highlights the conditions under which fiscal policy enhances growth and the challenges governments face in balancing fiscal objectives. The discussion also addresses contemporary issues such as fiscal responses to crises, sustainability, and inequality, emphasizing the need for tailored approaches to achieve optimal outcomes.

Keywords: Fiscal policy, Economic growth, Government spending, Taxation, Fiscal sustainability, Inequality, Global perspective, Crisis response.

INTRODUCTION

Fiscal policy is a cornerstone of economic management, influencing growth trajectories by altering aggregate demand and resource allocation. Governments worldwide deploy fiscal instruments, such as spending programs and tax measures, to stimulate economic activity, address market failures, and achieve social objectives. This article examines the multifaceted impact of fiscal policy on economic growth from a global perspective, emphasizing both opportunities and limitations (Benhabib & Eusepi, 2005).

The relationship between fiscal policy and economic growth is grounded in classical and Keynesian economic theories. While classical economists emphasize the long-term neutrality of fiscal policy, Keynesians argue for its active role in short-term stabilization. Modern approaches, such as endogenous growth theory, further elaborate on how public investments in infrastructure, education, and technology can drive sustainable growth (Chugunov et al., 2021).

Public expenditure on infrastructure, health, and education directly contributes to economic growth by enhancing productivity and human capital. Developing economies, in particular, benefit from such investments, as they often lack the foundational infrastructure needed for private sector development. However, inefficient spending and corruption can undermine these benefits, highlighting the need for accountability and transparency (Clements et al., 2004).

Taxation impacts growth by influencing disposable income, consumption, and investment. Progressive tax systems can reduce inequality but may disincentivize entrepreneurship and labor participation if rates are excessively high. Conversely, regressive tax policies might stimulate growth in the short term but exacerbate inequality, ultimately hampering sustainable development (Easterly & Rebelo, 1993).

Fiscal multipliers measure the effectiveness of fiscal policy in influencing GDP. Their magnitude varies across countries, depending on factors such as the level of development, monetary policy coordination, and openness to trade. Understanding these dynamics helps policymakers design interventions that maximize growth without causing adverse side effects (Kim et al., 2021).

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The impact of fiscal policy varies significantly across regions. In advanced economies, counter-cyclical fiscal measures have been instrumental in stabilizing growth during recessions. In contrast, emerging markets often face constraints such as limited fiscal space and higher borrowing costs, necessitating innovative approaches to achieve similar outcomes (Kofi, 2011).

Economic crises underscore the critical role of fiscal policy. During the 2008 financial crisis and the COVID-19 pandemic, governments worldwide implemented expansive fiscal measures to cushion economic shocks. While these interventions were effective in the short term, they also raised concerns about fiscal sustainability and debt management (Paparas et al., 2015).

Despite its potential, fiscal policy faces numerous challenges, including political constraints, public debt accumulation, and external shocks. Poorly designed fiscal measures can lead to inflation, crowding out of private investment, and economic distortions, undermining growth prospects (Salma & Said, 2016).

Fiscal sustainability is crucial for long-term economic growth. Governments must balance the need for stimulating growth with maintaining manageable debt levels. Fiscal rules and frameworks, such as balanced budget laws and debt ceilings, can help ensure responsible fiscal management (Stoilova & Todorov, 2021).

Reducing inequality is a key objective of fiscal policy. Social spending programs and progressive taxation play essential roles in redistributing wealth and fostering inclusive growth. However, achieving these goals requires careful calibration to avoid adverse effects on productivity and economic dynamism (Symoom, 2018).

CONCLUSION

Fiscal policy remains a vital instrument for promoting economic growth. Its effectiveness depends on sound design, context-specific strategies, and prudent implementation. Policymakers must balance short-term objectives with long-term goals, addressing challenges such as inequality and fiscal sustainability. By adopting innovative approaches and learning from global experiences, governments can harness fiscal policy to foster robust and inclusive growth.

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