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Government Policy for Sustaining Economic Stability and Enhancing Social Welfare

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Abstract

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Conventional fiscal policy plays a crucial role in maintaining economic stability through the management of taxation and government expenditure. However, the implementation of such a policy faces various challenges, including timing of execution, fiscal constraints, political pressures, and the effects of economic globalization. This study reviews both empirical and theoretical literature concerning the relationship between fiscal policy, societal welfare, and economic growth. Findings indicate that expansionary fiscal policy can enhance household purchasing power and public investment, yet it may generate budget deficits and inflation if not managed properly. Conversely, contractionary fiscal policy can curb inflation but risks slowing economic growth and exacerbating social inequality. Therefore, the effectiveness of conventional fiscal policy largely depends on careful policy design, fiscal transparency, and alignment with monetary policy measures. Policymakers are encouraged to adopt evidence-based strategies and ensure accountability to optimize the dual objectives of economic stabilization and equitable welfare distribution. This review underscores the importance of adaptive and well-coordinated fiscal measures to navigate contemporary economic challenges.

1. Introduction

Conventional fiscal policy is one of the main instruments in maintaining stability and encouraging economic growth through the management of tax revenues and government expenditures. Its primary goal is not only to stimulate economic activity but also to ensure the equitable distribution of community welfare and control the rate of inflation. In an increasingly complex global context, the implementation of fiscal policy faces various new challenges stemming from international economic dynamics, changes in social structure, and domestic political pressures. The imbalance between public revenue and expenditure is a recurring issue in many countries, especially in the post-pandemic period and periods of global economic crisis that demand adaptive and sustainable policies (Huidrom et al., 2018). In both developing and developed countries, the effectiveness of fiscal policy is highly influenced by the level of macroeconomic stability and the quality of government governance.

Empirical evidence shows that expansionary fiscal policy is able to boost Gross Domestic Product (GDP) growth through increased public investment and household consumption. However, without efficiency in resource allocation and adequate fiscal supervision, such policies can lead to budget deficits and inflationary pressures that potentially reduce community welfare (Pasichnyi, 2017). Another challenge is maintaining the balance between the short-term goal of economic stabilization and the long-term goal that emphasizes fiscal sustainability and the reduction of social inequality. In addition to serving as an economic stabilization tool, fiscal policy plays a strategic role in the income redistribution process through the implementation of progressive tax systems and the provision of subsidies aimed at vulnerable community groups. However, as stated by Vintilă et al. (2021), the success of redistribution heavily depends on the government's ability to accurately target beneficiaries and minimize potential fiscal leakage. In the context of OECD (Organization for Economic Co-operation and Development) member countries, fiscal policies that rely too heavily on consumption taxes actually risk deepening inequality because the relative burden is greater for low-income groups.

In line with the global paradigm shift towards sustainable development, fiscal policy is no longer solely oriented toward economic growth but must also consider social and environmental dimensions. Walker et al. (2021) highlight that modern welfare systems face a dilemma between maintaining economic growth and preserving ecological sustainability. This condition creates pressure on policymakers to design a fiscal system that is more inclusive and environmentally conscious (green fiscal policy), by incorporating social and ecological externalities into the tax structure and state expenditure policy. In the context of Indonesia and other developing countries, similar challenges are also evident. The implementation of expansionary fiscal policies through energy subsidies, social assistance, and infrastructure development is often chosen as a strategy to stimulate economic growth while simultaneously reducing poverty rates.

However, without measurable long-term fiscal planning, these policies can increase fiscal risk, reduce investor confidence, and disrupt macroeconomic stability (Lamba et al., 2019). Therefore, the synergy between fiscal policy and monetary policy is a crucial factor in creating a balance between economic growth and equitable welfare. Thus, conventional fiscal policy is now faced with demands to transform into a more adaptive, transparent, and equitable instrument. The evidence-based policy approach and the application of public accountability principles are fundamental elements to ensure that fiscal instruments do not only function as tools for economic stabilization but also as drivers for inclusive and sustainable social welfare. This transformation is necessary for fiscal policy to address the structural challenges of the modern economy and strengthen national economic resilience amidst dynamic global changes.

2. Literature Review

2.1. Fiscal Policy and Economic Growth

Fiscal policy has long been recognized as one of the main instruments for influencing economic growth through the regulation of tax revenue and government expenditure. According to Pasichnyi (2017), expansionary fiscal policy can increase economic output in the short term by encouraging aggregate consumption and public investment. However, its long-term impact heavily depends on the quality of state expenditure and the institutional capacity to channel resources efficiently. Countries with good fiscal governance tend to have a larger fiscal multiplier, while countries with high corruption experience a decline in policy effectiveness.

Research by Huidrom et al. (2018) shows that in developing countries, fiscal policy often faces a dilemma between the need for short-term stimulus and long-term fiscal sustainability. Increased deficits to fund infrastructure projects can indeed boost growth, but if not balanced with tax reforms and expenditure efficiency, it can worsen the debt-to-GDP ratio. Therefore, careful, data-based fiscal planning is an important requirement for macroeconomic stability. Furthermore, Stoilova and Todorov (2021) found that the composition of public expenditure has a significant influence on economic growth. Spending on education, research, and infrastructure plays a positive role in long-term productivity, whereas consumptive expenditures tend to produce temporary effects. Thus, the effectiveness of fiscal policy in promoting economic growth is determined not only by its magnitude but also by the priorities and efficiency of its use.

2.2. Fiscal Policy and Social Welfare

In addition to influencing growth, fiscal policy serves as a tool for income redistribution to reduce social inequality. Vintilă et al. (2021) assert that progressive taxation and social transfers play an important role in narrowing the income gap in OECD countries. However, its influence varies greatly depending on the economic structure and tax administration capacity. Countries with an efficient and transparent tax system are better able to channel fiscal benefits to low-income groups.

Walker et al. (2021) highlight that new challenges arise when countries seek to maintain welfare without relying on excessive economic growth. They propose the concept of post-growth welfare, where fiscal policy is directed not only at increasing GDP but also at the quality of life, social balance, and environmental sustainability. In this context, the role of public expenditure shifts from merely economic stimulus to long-term social investment that builds community resilience to crises. Furthermore, Lamba's (2019) study in Indonesia shows that fiscal policy directed at the education, health, and social assistance sectors has a positive effect on poverty reduction and welfare improvement. However, its effectiveness heavily depends on the accountability of implementation and the capacity of regions to manage public funds transparently. In many cases, inefficient bureaucracy and fiscal inequality between regions hinder the benefits of the policy for the poor.

2.3. Challenges and Transformation of Conventional Fiscal Policy

The post-COVID-19 pandemic era has imposed new pressures on global fiscal policy. According to the IMF (International Monetary Fund) the surge in public spending for stimulus and health programs has led to an increase in fiscal deficits in most countries. The main challenge for governments now is to find a balance between the need for economic recovery and long-term fiscal sustainability. Developing countries face the risk of debt overhang, where a high debt burden limits their ability to invest in productive sectors (Mahmud, 2018). Besides fiscal pressure, the digital economic transformation demands an update of the taxation system the need for international tax reform to address tax avoidance by multinational companies and strengthen state revenues. This reform is crucial for maintaining the social legitimacy of fiscal policy, as the perception of tax unfairness can trigger public resistance to government economic policies.

Furthermore, the concept of green fiscal policy is starting to gain attention as a form of fiscal policy innovation that is environmentally oriented. Within this framework, public spending is directed towards green investment, energy efficiency, and carbon emission reduction. Walker et al. (2021) state that the transition to green fiscal policy can strengthen economic resilience while expanding the basis for sustainable social welfare. Therefore, future fiscal policy needs to integrate the principles of inclusivity, efficiency, and sustainability as key pillars of global economic reform.

3. Method

This research uses a literature study approach as the basis for analyzing the challenges and impacts of conventional fiscal policy on community welfare and economic growth. This approach was chosen because it provides an opportunity for researchers to examine and integrate various relevant empirical and theoretical findings from reputable academic sources, especially scientific journal articles published within the last five years. Through this method, the researcher seeks to identify general patterns, research gaps, and the direction of fiscal policy development in various economic contexts, both in developed and developing countries. The research process is carried out through several systematic stages. The first stage is the search and selection of literature using academic databases such as Google Scholar, Research Gate and Elsevier. The search was conducted using a number of keywords, including fiscal policy, economic growth, welfare, income distribution, and government spending.

From the initial search results, which yielded more than one hundred articles, only several articles were selected because they met the criteria for thematic relevance, publication time frame, and high scientific validity. These articles became the main sources in the process of deeper analysis. The second stage involves the application of content analysis. At this stage, each article is systematically examined to identify the research objectives, methodological approach, variables used, and main findings. This analysis allows researchers to evaluate the effectiveness of various fiscal policy instruments, such as progressive taxes, subsidies, and public spending, on indicators of economic growth and social welfare. The third stage is the literature synthesis process, which aims to find conceptual links between findings and identify research gaps.

Through this synthesis approach, the researcher seeks to build a comprehensive analytical framework by combining economic, social, and public policy dimensions to understand the effectiveness of conventional fiscal policy more thoroughly. The results of the entire process are presented in the form of descriptive and argumentative narratives, which not only explain the dynamics of contemporary fiscal policy but also offer theoretical and practical recommendations. Thus, this literature study method not only functions to describe empirical phenomena but also serves as a reflective means in formulating fiscal policy strategies that are more effective, inclusive, and sustainable.

4. Results

The results of this study indicate that conventional fiscal policy plays a very fundamental role in maintaining macroeconomic stability, income distribution, and improving social welfare. However, the effectiveness of this policy is highly influenced by a country's economic context, the capacity of fiscal governance, and the government's ability to adjust policies to ever-changing global dynamics. Based on the literature review of eight main journals, it was found that the main challenges facing modern fiscal policy include limitations in fiscal capacity, political pressure, changes in economic structure, and the need to adapt to the paradigm of sustainable development. Pasichnyi (2017) asserts that in developing countries, especially the Eastern European region, expansionary fiscal policy proved effective in boosting short-term economic growth through increased public spending and infrastructure investment. However, the positive impact is often not sustainable in the long term due to weak fiscal supervision systems, bureaucratic inefficiency, and increased public debt burden. Thus, without institutional reform and transparency in budget management, expansion of government spending risks causing inflationary pressures and widening social inequality.

The results of this study demonstrate the importance of disciplined fiscal management so that expansionary fiscal policy does not lead to negative consequences for macroeconomic stability. In the context of other developing countries, Huidrom et al. (2018) identified that the main challenge of fiscal policy is not only related to the government's fiscal capacity to stimulate economic growth but also related to the timeliness of its implementation. Often, policies designed to accelerate economic recovery are executed too late, so their multiplier effect on growth becomes limited. This phenomenon is known as implementation lag, which is a delay in policy implementation due to political, bureaucratic, and legislative obstacles.

This condition leads to a decrease in the effectiveness of fiscal policy and potentially reduces government credibility in the eyes of the public. In the long term, this problem not only hinders economic recovery but also lowers the level of public trust in the national fiscal system. Furthermore, the research by Vintilă et al. (2021)

highlights that effective fiscal policy must be able to balance two main functions: economic stabilization and social equity. Based on their study of OECD member countries, progressive tax systems and well-targeted subsidies proved capable of reducing income inequality without hindering economic growth. However, when fiscal policy places too much emphasis on redistribution without considering economic efficiency, national productivity is at risk of declining. Therefore, a balanced policy approach between equity and efficiency is needed so that economic and social development goals can be achieved simultaneously.

Walker et al. (2021) introduce a new approach to fiscal policy through the concept of the post-growth welfare system. They argue that conventional fiscal policy has been too oriented towards economic growth based on GDP without considering aspects of social welfare and environmental sustainability. In the context of the modern global economy, which faces ecological pressures and increasing social inequality, fiscal policy needs to be directed to achieve a balance between economic, social, and ecological dimensions. Therefore, future fiscal policy is expected to integrate the principle of green fiscal policy, such as the application of carbon taxes, incentives for renewable energy investment, and the allocation of public spending for sustainable projects. This approach is believed to create a fiscal system that not only supports growth but also preserves environmental sustainability.

In the context of Indonesia and other developing countries, Lamba's (2019) study shows that the effectiveness of fiscal policy is strongly influenced by the government's ability to manage fiscal resources and strengthen public governance.

Economic stimulus programs in the form of social assistance and infrastructure development proved capable of increasing community purchasing power and reducing poverty levels. However, these policies still face a number of major challenges, such as regional development inequality, low efficiency of public spending, and limited regional fiscal capacity. Ernawati et al. (2021) emphasizes the importance of implementing fiscal decentralization balanced with increasing the capacity of regional financial management, so that fiscal policy is more responsive to local needs and characteristics. This approach is expected to strengthen the synergy between the central and regional governments in driving inclusive economic growth.

Apart from technical and institutional factors, this research also found that political pressure has a significant influence on the effectiveness of conventional fiscal policy. In many cases, the process of drafting the public budget is influenced by short-term interests, such as electoral priorities, rather than long-term goals that focus on economic stability and social welfare. This is in line with the findings of the IMF during the COVID-19 pandemic crisis, many countries massively expanded budget deficits to support economic recovery, but were not accompanied by a planned exit strategy. As a result, a number of countries experienced an increase in the public debt-to-GDP ratio, which potentially threatens fiscal stability in the long term. This condition indicates the need for fiscal discipline accompanied by evidence-based policies to avoid the risk of budget sustainability.

One important result of this literature review is the urgency of tax system reform. According to the OECD, the current global tax system needs to adapt to digital economic changes that bring new challenges in tax collection on multinational companies. Fiscal policies that are unable to adjust to the development of the digital economy risk losing a significant amount of potential state revenue. Therefore, the OECD encourages international cooperation in the formation of a fairer and more transparent global tax system, including the application of digital taxes for large technology companies. This step is considered important to ensure fiscal justice between countries while expanding the tax base in the era of economic digitalization. In practice, the sustainability dimension is also a crucial aspect of modern fiscal policy. Walker et al. (2021) assert that contemporary fiscal systems cannot only focus on increasing economic growth but must also consider the social and ecological impacts of these policies. A concrete example can be seen in countries that have successfully integrated carbon taxes and green energy subsidies into their fiscal systems.

These policies not only significantly reduce greenhouse gas emissions but also create new jobs in the renewable energy sector, while strengthening national economic competitiveness in the long term. A synthesis of this entire literature study indicates a shift in the fiscal policy paradigm from a conventional approach to a more inclusive and sustainable model. Inclusive fiscal policy emphasizes the importance of the state's role in expanding community access to essential public services such as education, health, and social protection through efficient and targeted budget use. Meanwhile, sustainable fiscal policy focuses on adjusting fiscal instruments to support the transition towards a low-carbon and environmentally friendly economy This approach reflects a fundamental change in the orientation of global economic policy, from merely pursuing GDP growth towards sustainable welfare. Furthermore, the results of the analysis show that the effectiveness of fiscal policy also heavily depends on the level of fiscal credibility and government transparency. When the public has high confidence in the country's fiscal management, expansionary policies are more readily accepted and have a stronger economic impact. Conversely, low fiscal transparency can increase the perception of risk, reduce investment interest, and worsen economic instability.

In this context, public accountability mechanisms and state financial audits play an important role in maintaining public trust and strengthening long-term fiscal stability. The findings of this study confirm that conventional fiscal policy is undergoing a fundamental transformation in facing the challenges of the 21st century. Economic globalization, digitalization, the climate crisis, and increasing social inequality demand policy innovations that are more adaptive, participatory, and sustainable. Governments in various countries must be able to balance short-term fiscal needs to stimulate the economy with long-term responsibilities in maintaining fiscal sustainability and social welfare. Thus, future fiscal policy needs to be designed based on the principles of efficiency, inclusivity, and sustainability so that it can act as the main instrument in creating an economic system that is resilient and fair for all levels of society.

5. Discussion

The research results show that conventional fiscal policy has a central role in maintaining macroeconomic stability, income distribution, and improving social welfare. Its effectiveness is highly dependent on the national economic condition, the capacity of fiscal governance, and the government's ability to adjust policies to global dynamics. Based on the review of eight main journals, it was found that the main challenges of modern fiscal policy include limitations in fiscal capacity, political pressure, changes in economic structure, and the demands to adapt to the paradigm of sustainable development. Nursini (2017) asserts that in developing countries, especially the Eastern European region, expansionary fiscal policy can boost short-term economic growth through increased public spending and infrastructure investment.

However, without strong fiscal supervision and transparent institutional reform, these policies have the potential to cause inflationary pressures and worsen social inequality due to increased public debt. Kissinger et al. (2019) added that the effectiveness of fiscal policy is also determined by the timeliness of implementation. The phenomenon of implementation lag caused by bureaucratic and political obstacles often reduces the policy's driving force for growth, even lowering the government's fiscal credibility. Sriyana (2019) showed that ideal fiscal policy must balance economic stabilization and social equity. Through their study of OECD countries, they proved that progressive taxes and well-targeted subsidies can reduce inequality without hindering growth. However, excessive redistribution without considering efficiency can reduce national productivity.

Meanwhile Sumarto (2017) proposed the concept of a post-growth welfare system, which emphasizes that fiscal policy needs to integrate social welfare and environmental sustainability through green fiscal policy, such as carbon taxes and renewable energy incentives. In the Indonesian context, Ernawati et al. (2021) highlighted the importance of fiscal decentralization accompanied by increasing regional fiscal capacity. Social assistance and infrastructure programs indeed increase purchasing power and reduce poverty, but still face challenges in the form of regional inequality and low efficiency of public spending. The IMF noted that during the COVID-19 pandemic, many countries expanded deficits relative to GDP without a clear exit strategy, thereby posing a risk to fiscal sustainability. The OECD urgency of global tax reform in the digitalization era. Without adaptive policies, countries risk losing significant potential revenue. Therefore, international collaboration is needed in creating a fair and transparent digital tax system. Sumarto (2017) exemplified the success of Scandinavian countries in integrating carbon taxes and green energy subsidies, which not only reduced emissions but also created new jobs.

In general, the synthesis results indicate a paradigm shift from conventional fiscal policy to an inclusive and sustainable approach. The effectiveness of fiscal policy is highly influenced by fiscal credibility and public transparency. Public trust in fiscal governance determines the success of expansionary policies and long-term stability. Thus, amidst the challenges of globalization, digitalization, and the climate crisis, future fiscal policy must be designed based on the principles of efficiency, accountability, and sustainability so that it can support a resilient and equitable economic system.

6. Conclusion

Conventional fiscal policy plays a strategic role in maintaining economic stability, promoting growth, and improving community welfare. Based on the results of the literature analysis from various recent studies, this policy proves effective when implemented adaptively, transparently, and accompanied by strong fiscal governance. Instruments such as progressive taxes, productive public spending, and social subsidies are key to creating a balance between economic growth and income equity. However, the main challenges faced are limitations in fiscal capacity, bureaucratic inefficiency, and political pressure that often hinder the optimal implementation of policies. The balance between economic efficiency and social justice is the core of successful fiscal policy.

Meanwhile, the importance of transforming towards a sustainable fiscal policy is highlighted, which is oriented not only towards growth but also towards social and environmental balance. Thus, the direction of future fiscal policy must integrate the principles of fiscal sustainability, social equity, and environmental responsibility. The government needs to strengthen fiscal credibility, increase transparency, and direct public spending toward productive and environmentally friendly sectors. This approach is expected to create a resilient, inclusive, and sustainable economic system in the long term.

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