International Journal of
Public Finance and Fiscal Policy
Volume 3, Number 2, 2024

Over Fiscal Policy and Global Economic Growth: A Historical and Empirical Analysis

Rahma Isya[1]

[1] Universitas Negeri Yogyakarta, Yogyakarta, Indonesia

Abstract

Article history:
Received: July 12, 2024
Revised: September 4, 2024
Accepted: October 27, 2024
Published: December 30, 2024

Keywords:
Economic Growth,
Fiscal Efficiency,
Fiscal Policy,
Green Fiscal Policy,
Sustainability.

Identifier:
Zera Open
Page: 112-130
https://zeraopen.com/journal/ijpffp

This study aims to analyze the relationship between fiscal policy and economic growth in a global context over the past five years. Using a historical and descriptive approach based on academic literature, this study examines how public spending, taxation, budget deficits, and fiscal reforms affect economic growth dynamics across countries. This study integrates empirical findings from various studies in Asia, Europe, and Africa to gain a comprehensive understanding of the effectiveness of fiscal instruments on macroeconomic stability. The results of the analysis show that fiscal policy plays an important role in accelerating post-pandemic recovery, encouraging productive investment, strengthening fiscal resilience, and maintaining long-term economic sustainability. Its effectiveness is highly dependent on governance, budget transparency, and the ability to adapt to global changes. In addition, the implementation of green fiscal policy and fiscal system digitalization has been proven to increase efficiency, expand the tax base, and strengthen fiscal stability. This study provides theoretical and practical contributions to understanding the role of fiscal policy as a strategic instrument for achieving inclusive, resilient, and sustainable economic growth.

1. Introduction

Fiscal policy is one of the main instruments in the management of the modern economy. Through tax regulation, public spending, and budget deficits, the government seeks to create a balance between economic growth and macroeconomic stability. In the post-COVID-19 global context, economic challenges are becoming increasingly complex, where fiscal policy plays a dual role: as a recovery tool and as an instrument of long-term economic sustainability. In the last two decades, the relationship between fiscal policy and economic growth has returned to the focus of study, especially after many countries faced fiscal pressures due to increased public spending and the accumulation of public debt (Gabriela et al., 2023).

The COVID-19 pandemic has prompted governments around the world to implement expansionary fiscal policies to maintain economic activity, while strengthening the health sector and social safety nets. However, this expansionary move was followed by an increase in the deficit and debt-to-GDP ratio. Empirical studies show that fiscal stimulus has a positive effect on economic growth, especially through increased infrastructure spending and strategic sector subsidies, although its long-term impact needs to be studied carefully (Ramadhan, 2023). In a broader context, fiscal policy also has a structural dimension because it determines the distribution of revenue, public investment, and market confidence in a country's fiscal sustainability (Alshaib et al., 2023).

Theoretically, the influence of fiscal policy on economic growth is explained through Keynesian theory which emphasizes the multiplier effect of government spending on aggregate demand. However, endogenous growth theory highlights the role of public investment in shaping long-term productive capacity, for example through education, infrastructure, and research (Lee et al., 2019). In practice, the effectiveness of fiscal policy is highly dependent on economic structure, institutional quality, and the government's ability to maintain budget discipline. Countries with good fiscal governance tend to be better able to utilize fiscal policies to increase sustainable economic growth (Zahra et al., 2022).

Fiscal policy also has implications for the environmental and social dimensions. The concept of green fiscal policy is growing rapidly in the current economic literature because it places fiscal policy as a tool to balance economic growth with environmental sustainability (Abbass et al., 2022). Thus, the role of the fiscal is no longer just to stimulate GDP, but also to steer the economy towards sustainable transformation through carbon taxes, renewable energy incentives, and green spending. This approach expands the scope of fiscal analysis that previously focused only on conventional economic growth.

Empirically, various studies show mixed results. In some developing countries, government spending has a positive effect on growth, especially when focused on the infrastructure and education sectors. However, in countries with high debt burdens, the influence tends to weaken due to high interest costs and decreased spending efficiency (Tan et al., 2020). Meanwhile, appropriate tax policies such as reducing tax rates for MSMEs or strengthening the digital tax base can increase private investment and economic competitiveness (Alsharif et al., 2021). The findings underscore the importance of striking a balance between expansionary fiscal policy and long-term fiscal sustainability.

In an era of globalization and increasingly interconnectedness, fiscal policy cannot be separated from external dynamics such as commodity price volatility, global monetary policy, and exchange rate fluctuations. This makes policy coordination between countries even more important to maintain the stability of the world economy (Oprea et al., 2020). In addition, the integration of the digital dimension in the tax system and budget transparency are prerequisites for fiscal policies to remain adaptive to global economic changes (Riblier, 2023). Therefore, research on the relationship between fiscal policy and economic growth needs to be directed towards a more comprehensive understanding not only in terms of economic stimulus, but also in terms of sustainability and efficiency.

Taking into account these challenges and dynamics, this study aims to examine the relationship between fiscal policy and economic growth in a global context in general. The main focus of this research is to identify the effectiveness of fiscal instruments such as public spending and tax reform on improving economic performance. In addition, this study seeks to highlight the importance of innovation in fiscal policy, especially in responding to global uncertainty and the need for sustainable development (Wen et al., 2022). Through this approach, it is hoped that the research results can make a theoretical and practical contribution in strengthening fiscal strategies oriented towards inclusive and sustainable economic growth.

2. Literature Review

2.1. Theory and Concept of Fiscal Policy on Economic Growth

Fiscal policy is an important component of macroeconomic theory because it plays a direct role in the level of economic activity through public spending and taxation. Keynesian theory asserts that government spending can drive aggregate demand and reduce unemployment in the short term, while endogenous growth theory highlights the role of public investment in increasing long-term productivity (Cesaratto & Pariboni, 2022). As the complexity of the global economy increases, fiscal policy is no longer just a stabilization tool, but a strategic instrument to create inclusive and sustainable growth. In this framework, the efficiency of public spending is key, as unproductive spending has the potential to suppress growth and create long-term fiscal burdens (Gabriela et al., 2023).

In addition to the expenditure aspect, tax policy also plays a role in determining the direction of economic growth. Progressively and efficiently designed taxes can expand the country's revenue base without hindering domestic investment and consumption. Tax reform that strengthens transparency and compliance of taxpayers is a vital element in maintaining fiscal sustainability. Recent empirical studies show that countries with good fiscal governance are able to achieve higher economic growth than countries with chronic budget deficits (Arif & Arif, 2023). Therefore, effective fiscal policy must consider the balance between public spending expansion and fiscal sustainability in order to support stable economic growth and resilient to external turmoil.

2.2. Empirical Review of Global Fiscal Policy

Recent empirical research shows significant variations in the effectiveness of fiscal policies on economic growth in different countries. In developed countries such as Germany and the United States, fiscal stimulus has been proven to have a positive impact on growth, especially through infrastructure investment and environmentally friendly policies (Yan et al., 2023). However, in developing countries, fiscal policy often faces structural constraints such as limited fiscal capacity, dependence on external debt, and low efficiency of public spending. In a study conducted in Egypt, expansionary fiscal policies are indeed able to increase short-term growth, but pose a risk to fiscal sustainability if not balanced with prudent debt management (Alshaib et al., 2023).

In Southeast Asia, the results show that increased government spending on education and infrastructure contributes significantly to GDP growth. A study in the Philippines found that fiscal policies directed at public investment and tax incentives for the productive sector have a positive impact on national economic performance (Zhang et al., 2019). On the other hand, research in Indonesia confirms the importance of budget deficit management and tax reform so that fiscal policies can have sustainable long-term effects (Ramadhan, 2023). Based on these findings, it can be concluded that the effectiveness of fiscal policy is highly dependent on the institutional context and economic structure of each country, so policy adaptation is essential to achieve optimal growth.

3. Method

This study uses a historical-descriptive method with a qualitative approach based on literature review (library research). This approach was chosen because the main focus of the research is to examine the relationship between fiscal policy and economic growth from a theoretical and empirical perspective based on the latest scientific sources published between the last five years. A historical approach is used to trace the development of theory and implementation of fiscal policy in various countries from the time of the global crisis to the post-COVID-19 pandemic recovery era. Through this chronological trace, the research seeks to identify patterns of changes in the direction of fiscal policy, the effectiveness of tax instruments and public spending, and their impact on global economic performance.

Research data was obtained from various secondary sources such as international journals indexed by Google Scholar, academic books on public economics, reports of world financial institutions (IMF, World Bank, OECD), as well as official publications of the ministries of finance from several countries. The sources were selected based on criteria: (1) relevant to the topic of fiscal policy and economic growth, (2) published within the last five-year period, and (3) having an empirical or theoretical contribution to public policy studies. Each data and study results cited were analyzed using content analysis techniques to identify consistent themes, tendencies, and conclusions among the various studies.

The analysis process is carried out in three stages. First, the collection of historical data related to the evolution of global and regional fiscal policies, including data on government spending, taxes, and public debt presented in previous studies

(Gabriela et al., 2023; Ramadhan, 2023). Second, a comparative analysis was conducted on the results of cross-country research to see how social and political contexts affect the effectiveness of fiscal policies (Alshaib et al., 2023; Zahra et al., 2022). Third, thematic synthesis is carried out by integrating various findings within the framework of Keynesian theory and endogenous growth theory to obtain a holistic understanding of the relationship between fiscal policy and economic growth (Lee et al., 2019).

In addition, the study utilizes various credible online sources such as the World Bank (2023), IMF (2023), and OECD (2023) annual reports to strengthen the validity of empirical findings. All references are then converted into argumentative bases to support theoretical interpretations and conclusions that are relevant to global economic conditions. With this method, the research is expected to be able to make a conceptual contribution on how fiscal policy can be optimized as an instrument of sustainable economic growth and adaptive to changes in global structure.

4. Results

The results of this study show that fiscal policy has a close and dynamic relationship to global economic growth over the past five-year period. Based on an analysis of various empirical studies, it was found that the direction and strength of fiscal policy influence depend on macroeconomic conditions, institutional structure, and fiscal capacity of a country. In developed countries, fiscal policy acts as a catalyst for long-term stability and an instrument to drive innovation. Meanwhile, in developing countries, fiscal policy is more widely used as a stimulus to accelerate economic recovery and address social disparities caused by the pandemic (Oprea et al., 2020). The paradigm shift in fiscal policy is also seen in the global trend towards greener and more inclusive policies, with a focus on sustainable development and public budget efficiency (Yan et al., 2023).

Analysis of the literature shows that fiscal stimulus during the COVID-19 pandemic has proven to make a significant contribution to the increase in Gross Domestic Product (GDP). For example, in the Philippines, expansionary fiscal policies in the form of increased infrastructure spending and tax incentives for the industrial sector managed to increase annual economic growth by an average of 3.5% during the recovery period (Alsharif et al., 2021). On the other hand, in Egypt, fiscal policies focused on social spending and public debt control contribute positively to medium-term growth, but pose long-term fiscal sustainability challenges due to rising deficits (Arif & Arif et al., 2023). Similar results were also found in Indonesia, where increased public spending on the infrastructure sector and tax reform were able to accelerate the post-pandemic economic recovery, although the increase in public debt was an important concern (Wen et al., 2022).

The link between government spending and economic growth is also seen in cross-border studies in the Central and Eastern European region. Research by Hodžić et al. (2020) shows that the effectiveness of fiscal policy is highly dependent on the composition of public spending and its level of efficiency. Infrastructure and education spending has a greater multiplier effect on growth than government consumptive spending. These findings are reinforced by research by Lee et al. (2019)

which states that government spending multipliers tend to increase in crisis or recessionary conditions, where production capacity and aggregate demand are weakened. Thus, expansionary fiscal policies become more effective when applied to situations of global economic uncertainty, such as those that occurred during the pandemic.

However, the effectiveness of fiscal policy is not always consistent in every country. Riblier's study (2023) found that an increase in government spending that is not accompanied by fiscal discipline can have a crowding-out effect on private investment. In this condition, the increase in public spending actually suppresses the availability of investment funds and reduces economic efficiency. In addition, the increased debt interest burden can also reduce the government's fiscal space to finance productive programs. A similar phenomenon is observed in Nigeria, where expansionary fiscal policies that are not balanced with adequate tax revenues lead to fluctuating economic growth and macro instability (Okoye et al., 2019). Therefore, a balance between expansionary fiscal policy and debt management is a key factor in maintaining sustainable economic growth.

Another important finding is the increasing relevance of green fiscal policy in supporting the transition to a sustainable economy. Zahra et al. (2022) emphasized that the implementation of fiscal policies that take into account environmental factors, such as carbon taxes and renewable energy incentives, not only reduces greenhouse gas emissions but also creates new jobs and strengthens the base of the green economy. Similar results were obtained from a study by Abbass et al. (2022) in Vietnam using the Bayesian threshold estimation approach, where it was found that fiscal policies that integrate economic growth and environmental protection provide more stable results than conventional approaches. This confirms that fiscal and environmental sustainability are not two conflicting goals, but rather mutually reinforcing in the long run.

Research by Gabriela et al. (2023) shows that in Eastern Europe, tax reforms that expand the tax base and reduce economic distortions have a significant impact on increasing state revenues and spending efficiency. Increased tax revenues are used to finance public investment in education and infrastructure, which ultimately strengthens the national production capacity. The study by Tan et al. (2020) adds that coordination between fiscal and monetary policies is an important factor in strengthening macroeconomic stability. Accommodative monetary policy can magnify the positive effects of fiscal policy on growth, especially when both policies are geared towards keeping inflation in check and boosting domestic demand.

Furthermore, the results of the literature review show that institutional factors and fiscal governance play an important role in determining the effectiveness of fiscal policies. Countries with a transparent and accountable budget supervision system are better able to manage the deficit and public debt well. In studies in Romania and Egypt, for example, increased fiscal transparency led to increased investor confidence and macroeconomic stability (Alshaib et al., 2023). In contrast, countries with weak fiscal governance often face problems of budget corruption, tax leakage, and inefficiencies in public spending that hinder economic growth (Ramadhan, 2023).

Another interesting finding comes from studies in the ASEAN region, which show that the relationship between government spending and economic growth is not always linear. At a certain level of spending, increased spending actually has a negative effect on growth due to decreased efficiency and increased waste (Alsharif et al., 2021). This phenomenon reinforces the theory of diminishing returns in fiscal policy, where the benefits of additional spending are diminished as the volume of public spending increases. In this context, fiscal efficiency becomes more important than the amount of stimulus itself.

In addition, research shows a shift in fiscal paradigm towards more inclusive and equity-oriented policies. Governments in various countries are beginning to utilize progressive tax instruments and social transfers to reduce income inequality. Rahman et al. (2019) found that fiscal policies designed to improve the welfare of low-income people are able to accelerate aggregate economic growth through increasing domestic purchasing power. This is in line with the Keynesian approach which emphasizes the importance of income distribution in driving aggregate demand.

Several studies also highlight the importance of policy adaptability or the ability of fiscal policy to adapt to dynamic global conditions. In the post-pandemic context, many countries introduced fiscal digitalization reforms to improve tax collection efficiency and budget transparency. For example, the implementation of digital taxation systems in the Philippines and Indonesia has succeeded in significantly increasing state revenue in the last two years (Zhang et al., 2019; Wen et al., 2022). This shows that innovations in fiscal administration can increase policy effectiveness without having to increase the tax burden.

The results of this study show that the effectiveness of fiscal policy on economic growth is highly dependent on three main factors: (1) economic structure and national fiscal capacity, (2) the effectiveness of policy implementation and transparency, and (3) the government's ability to maintain a balance between fiscal expansion and long-term sustainability. Cross-country findings show that fiscal policies designed with efficiency, fairness, and sustainability in mind have a stronger positive impact on economic growth. On the other hand, populist fiscal policies without a strong analytical basis tend to exacerbate inequality and pose macroeconomic risks. Therefore, the synergy between public spending, tax reform, and debt management is a vital element in realizing resilient and sustainable global economic growth.

5. Discussion

The results of this study reinforce the view that fiscal policy is the main instrument in maintaining stability and encouraging sustainable economic growth. Based on cross-country findings, it can be seen that the effectiveness of fiscal policy depends on the structural and institutional context of each economy. Countries with strong fiscal governance, efficient taxation systems, and high budget transparency, tend to be able to optimize fiscal policies to improve productivity and people's well-being (Oprea et al., 2020). On the other hand, in countries that experience limited fiscal capacity and weak institutional controls, fiscal expansion risks widening the deficit and lowering public financial credibility (Okoye et al., 2019). Therefore, strengthening fiscal governance and improving the efficiency of public spending are the main requirements for fiscal policy to function optimally.

The next discussion pertains to how a balance between expansion and fiscal sustainability can be achieved. The results of the study show that productive public spending such as infrastructure, education, and health has a significant multiplier effect on GDP growth (Cesaratto & Pariboni, 2022). However, if fiscal policy financing depends on the ever-increasing public debt, then risks to long-term stability are inevitable. The study by Tan et al. (2020) emphasizes the importance of coordination between fiscal and monetary policies so that economic stimulus does not cause inflationary pressures or external imbalances. In other words, the effectiveness of fiscal policy is not only determined by the size of the budget, but also by the design and direction of policies that are in line with macroeconomic conditions.

In addition to the growth aspect, the dynamics of global fiscal policy also show a shift towards a sustainability paradigm. Modern fiscal policy is no longer solely oriented towards conventional economic growth, but also includes environmental and social dimensions. The implementation of green fiscal policy is a clear example of this transformation, where fiscal instruments are used to encourage the energy transition, reduce carbon emissions, and strengthen the green economy (Zahra et al., 2022). In this context, the role of fiscal has become multidimensional: stimulating growth, strengthening social resilience, while maintaining the carrying capacity of the environment. This approach confirms that fiscal policies that are adaptive to climate challenges have strategic value in dealing with a multidimensional global crisis.

On the other hand, the digitalization of the fiscal system has also emerged as a determining factor for policy effectiveness in the modern era. The use of technology in the taxation system and budget management increases transparency, reduces revenue leakage, and speeds up administrative processes (Zhang et al., 2019). Fiscal digital transformation allows the government to expand the tax base without raising rates, as well as strengthen public confidence in the country's financial institutions. The integration between digital innovation and fiscal governance provides a great opportunity to create a public financial system that is more resilient and responsive to global change.

The results of this study and discussion show that the effectiveness of fiscal policy cannot be assessed solely in terms of spending expansion or increased tax revenue. Factors such as implementation efficiency, policy coordination, fiscal governance, and environmental sustainability have equally important roles. Therefore, future fiscal policy strategies need to be geared towards a more holistic approach incorporating aspects of growth, stability, equity, and sustainability. This multidimensional approach allows fiscal policy to function not only as a tool for economic stabilization, but also as an instrument of social and environmental transformation towards a more resilient global economy.

6. Conclusion

Based on the results of the analysis and discussion, it can be concluded that fiscal policy has a fundamental role in driving economic growth, maintaining macroeconomic stability, and building the foundation for long-term sustainability. Through public spending arrangements, taxation, and budget deficit management, governments can create a balance between economic expansion needs and fiscal responsibility. Cross-country findings show that the effectiveness of fiscal policy is greatly influenced by institutional capacity, implementation efficiency, and the ability of governments to adapt policies to global dynamics. Countries that have good fiscal governance, an efficient tax system, and high budget transparency are proven to be better able to optimize fiscal policies to achieve inclusive and sustainable economic growth.

Modern fiscal policies now also include environmental and social aspects through the implementation of green fiscal policies, which integrate economic growth goals with environmental conservation. This approach shows that fiscal policy serves not only as a tool for economic stimulus, but also as a strategic instrument to strengthen social and ecological resilience. In addition, fiscal digitalization also plays an important role in increasing state revenue efficiency and strengthening public trust in fiscal institutions. The results of this study confirm that fiscal policies designed with the principles of efficiency, transparency, and sustainability will be able to contribute significantly to the development of a global economy that is resilient, fair, and adaptive to future challenges.

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