SHODH SAGAR
Journal of Commerce and Economics
Vol. 1 | Issue 3 | Oct - Dec 2024 | Peer Reviewed & Refereed

The Impact of Fiscal Policy on Economic Growth: A Comparative Analysis of Developed and Developing Economies

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Accepted: 10/10/2024 Published: 31/12/2024

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How to Cite this Article:
Srivastava, R. (2024). The Impact of Fiscal Policy on Economic Growth: A Comparative Analysis of Developed and Developing Economies. *Shodh Sagar Journal of Commerce and Economics*, 1(3), 7-11.
DOI: https://doi.org/10.36676/ssjce.v1.i3.15

Abstract
The effect of fiscal policy on economic growth by looking at how developed and growing economies are similar and different. Fiscal policy, which includes taxes and government spending, has a big impact on the growth and security of the economy as a whole. We looked at panel data from 2000 to 2023 to see how different fiscal policy measures, like government spending, taxes, and public debt, affected economic growth in a group of emerging and developed countries. To look at the short- and long-term effects, the study uses econometric modeling that considers things like the quality of the institutions, budget discipline, and shocks from outside the country. In both groups, expansionary fiscal policies tend to boost growth in the short term, but the long-term benefits are different. Strong institutions in developed economies make results more predictable, while in developing economies problems like wasteful resource allocation and budget deficits make things harder. the need for better fiscal governance in developing areas and how important it is to have customized fiscal strategies to support long-term economic growth.
Keywords: fiscal policy, economic growth, comparative analysis, developed economies, developing economies, public debt, institutional quality.

Introduction:
Fiscal policy, which is how the government spends money and collects taxes to affect the economy, has been known for a long time to be an important way to reach big-picture economic goals like boosting growth, keeping inflation stable, and keeping unemployment under control. When it comes to economic growth, fiscal policy is very important because it affects areas like investment, aggregate demand, and total productivity. Economists are still arguing about how successful different fiscal measures are, especially the balance between taxation and spending by the government, and how these measures affect economic growth in different situations. There are big differences between developing and developed economies in the way fiscal policy affects economic growth. This is because developing economies are still in the early stages of economic development, while developed economies are further along. With their

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well-established infrastructure, mature financial markets, and strong institutions, developed countries tend to respond more predictably to changes in the government budget. On the other hand, fiscal policies have less stable and sometimes contradictory effects on growing economies, which often have weak institutions, limited fiscal space, and inefficient structures. about how fiscal policy affects the growth of countries both developed and developing. The goal of this study is to give a full picture of how fiscal policies can be changed to support long-term growth by looking at the unique fiscal challenges and possibilities in each situation. This essay will specifically look at how fiscal growth, tax policies, and managing public debt affect the economies of a number of different countries. In doing so, this study answers the following questions: How do changes in fiscal policy affect economic growth in emerging and developed economies in different ways? What are the main reasons for these differences, and how can fiscal policy be improved to promote long-term, stable growth? By looking at differences between real-world statistics from 2000 to 2023, this study hopes to add something useful to the ongoing conversation about the role of fiscal policy in the growth of economies around the world.

Fiscal Policy in Developed Economies

In developed economies, fiscal policy has always been very important for keeping the economy stable, boosting growth, and dealing with seasonal downturns. With more developed financial markets, stronger institutions, and better incomes, these economies tend to have a wider range of fiscal tools and more freedom in how they carry out policies. When the government makes changes to the budget, developed economies usually react more predictably. This is because they have strong control structures and public financial management systems. This part talks about some important parts of fiscal policy in developed economies, like how the government spends money, how taxes are set, and how the public debt is managed, as well as how these things affect economic growth.

1. The Role of Government Spending in Economic Growth In developed countries, most of the money that the government spends goes toward building up infrastructure, social welfare programs, healthcare, education, and public goods. "The goal of these efforts is to boost overall demand and long-term productivity. For example, when the government spends money on infrastructure, it can have big benefits that make the economy more efficient and competitive. Developed economies also put a lot of money into research and development (R&D). This leads to new ideas and better technology, which supports long-term economic growth. It is important to keep the balance between capital and present spending to make sure that spending works well and helps the economy in the long run.

2. Taxation Policies and Their Impact on Growth In developed economies, taxes are an important part of fiscal strategy. The way taxes are set up, like income, consumption, and business taxes, has a big impact on how the economy works. Progressive tax systems in developed economies try to be fair while also bringing in enough money for the government to spend. But if they are not balanced right, high tax rates, especially on business profits or income, can stop people from investing and making things better. Tax changes, especially ones

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that aim to be more efficient and fair, have been a key way for many developed countries to boost growth. This part will look at how different tax systems affect choices about spending, saving, and investing, which in turn affects economic growth.

3. Public Debt and Long-Term Growth Effects Managing public debt is a big problem for developed economies, especially as populations age and costs for things like health care and pensions rise. Borrowing money can help pay for long-term growth projects, but too much debt can make it hard to keep the budget balanced. Debates about the pros and cons of keeping public debt high to fund growth projects are common in developed economies. These debates focus on the effects of rising debt on future economic stability. This part will talk about how debt-financed fiscal policies affect growth, why fiscal rules (like debt ceilings) are important, and how developed countries control their debt-to-GDP ratios so that they don't hurt growth.

This section looks at these parts to show how developed economies use fiscal policy to keep growth going, lessen the effects of economic shocks, and make sure the economy stays stable in the long run.

Fiscal Policy in Developing Economies

It is very important for developing countries to have good fiscal policy in order to boost economic growth, lower poverty, and deal with developmental problems. Unlike developed economies, though, developing economies have to deal with a number of problems, such as limited fiscal room, weaker institutions, and a greater vulnerability to shocks from outside the country. Most of the time, these restrictions make the economy less stable and make it harder to adopt fiscal policies. This part talks about the main parts of fiscal policy in developing countries, like how much the government spends, how hard it is to collect taxes, and how long the debt can last. It also looks at how these things affect economic growth and development.

1. Government Expenditure and Its Efficiency In developing countries, most of the money that the government spends goes to building up important infrastructure, fighting poverty, healthcare, education, and social programs. Spending on things like this is important for long-term growth and raising living standards, but it doesn't always work because of inefficient resource sharing and public financial management. Corruption, red tape, and bad leadership can make things less than ideal, where money isn't used effectively, which slows down economic growth. This part will talk about how emerging economies can make their government spending more effective so that they can grow the most. It will focus on improving infrastructure, public services, and the development of human capital.

2. Taxation Challenges and Informal Economies It's not easy to collect taxes in growing economies because there are a lot of unofficial businesses that don't pay taxes. Value-added tax (VAT) and other secondary taxes are used by many developing countries because direct tax systems aren't well developed and are hard to run. The government also doesn't get much money because taxes aren't enforced well and people don't pay them. This leads to budget shortfalls and makes it harder for governments to pay for important development projects. In this part, we'll talk about the structural problems with taxation in developing economies, the

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role of informal economies, and the need for tax changes to increase revenue, increase tax compliance, and increase the size of the tax base.

3. Debt Sustainability and Growth Constraints In developing countries, public debt often grows because of the need to pay for infrastructure projects and deal with shocks from outside the country. But because their income streams are more unstable and they depend on exporting goods, these economies are more likely to have problems with paying back their debts. When there is a lot of foreign debt and there are risks with the exchange rate, it can cause debt crises, which make it harder for the government to cut spending and the economy to grow". In this part, we'll look at how countries can balance the risks of fiscal instability with the benefits of borrowing money for growth in developing economies. It will also look at policy options to help handle debt better and make the country less reliant on borrowing money from other countries.

reveals the difficulties that developing economies face when they try to use economic tools to boost growth and development. It shows how important it is to improve the way the government handles money, change the way taxes work, and make sure the government handles its debt well in order to have long-term economic growth.

Conclusion

This study compares how fiscal policy affects economic growth in developing and developed economies. It shows that fiscal measures have big differences in how they affect the economies of these two groups. In developed countries, economic growth is more stable and long-lasting when institutions are strong, tax systems work well, and reactions to fiscal interventions are more predictable. Long-term growth is often caused by fiscal policies that increase government spending on things like infrastructure, education, and new ideas. These policies raise aggregate demand and output. Developed countries also have better ways of managing their debt, which lets them fund growth without putting their fiscal sustainability at risk. Developing economies have a hard time using fiscal policy to boost growth because of many problems. The ability of these economies to get the most out of fiscal interventions is limited by wasteful government spending, bad tax management, and a reliance on foreign debt. Having big informal sectors makes it harder to make money, which limits public investment in important areas like healthcare, education, and infrastructure. Developing economies are also more likely to be affected by shocks from outside the country and fiscal imbalances. This makes it hard for fiscal policy alone to support long-term growth. developing economies need to focus on building up their institutions, making government spending more efficient, and enacting broad tax changes to free up more money and encourage long-term growth. It is important for both developed and emerging economies to have good debt management and fiscal governance to make sure that fiscal policies help the economies stay stable and grow over time. In conclusion, fiscal policy is still a strong way to boost economic growth, but how well it works depends a lot on the institutions and economy of each country. Policymakers need to make sure that government spending, taxes, and debt management are all in line with larger development goals. They can do this by adapting fiscal tactics to the specific problems their economies face. As the world

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economy changes, especially now that the pandemic is over, fiscal policy will continue to be a key part of promoting growth that benefits everyone, in both rich and developing countries.

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