

Impact of fiscal policy and economic development in developing countries

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ABSTRACT

Fiscal policy is vital in influencing economic development in developing nations by affecting government expenditure, taxation, and budget allocations. This paper investigates the effects of fiscal policy on economic growth, poverty alleviation, and income distribution. It analyzes how both expansionary and contractionary fiscal measures influence key macroeconomic indicators like GDP growth, inflation, and employment levels. The research also points out the difficulties encountered by developing countries, such as budget deficits, ineffective tax systems, and dependence on foreign debt. Evidence from empirical studies indicates that well-crafted fiscal policies that prioritize infrastructure investment, social welfare programs, and prudent debt management can substantially promote economic growth. Nonetheless, the success of fiscal policies is contingent upon the quality of institutions, governance, and macroeconomic stability. The paper concludes by stressing the necessity for policy reforms that bolster revenue generation, enhance the efficiency of public spending, and encourage inclusive growth in developing economies.

INTRODUCTION

Raising government revenue and incurring government expenditures are the two main concerns of economic policy. The government creates fiscal policy, also known as budgetary policy, to raise money and incur expenses. In light of this, fiscal policy with government revenue and expenditures. The amount and pattern of expenditures flowing from the government to the economy and back again must be determined by fiscal policy. Therefore, "that section of national economic policy that is primarily involved with the receipts and expenditures of central government" is what is meant by economic policy in its broadest sense. Stated differently, the government's approach to taxes, spending, and borrowing is referred to as economic policy. The significance of fiscal policy is higher in developing nations. The function of the state must be necessary and aggressive. Direct strategies don't seem to be acceptable in a highly democratic society. Therefore, the government is forced to use indirect legal measures. Using this approach, budgetary policy could be a potent tool in the state's arsenal that it uses to achieve its development goals. The use of government income collection (mostly taxes) and expenditure (spending) to affect the economy is known as fiscal policy in economics and political science.

Economists believe that when the government modifies the amount of taxes and government spending, it affects both the level of economic activity and aggregate demand. Typically, fiscal policy aims to keep the economy stable during the fluctuation.

Among other things, changes in the amount and makeup of taxes and government spending will impact the following economic science variables in an economy:

1. Total demand as well as economic activity level
2. Economic savings and investment
3. Distribution of income

Monetary policy and fiscal policy are frequently separated; monetary policy deals with the money supply and lending, while fiscal policy deals with taxes and government disbursements and is typically managed by a government under legislative rules. Rates and interest rates, and a central bank typically oversees its administration. The government's choices regarding taxes and spending are the subject of fiscal policy. Monetary policy addresses both the interest rate and the amount of money in the economy. These are the primary policies strategies employed by economic administrators to guide the economy's general facets. The central bank is in charge of monetary policy in the majority of contemporary economies, whereas the government handles fiscal policy. There are various parts to fiscal policy. These consist of tax policy, spending policy, methods of investment or withdrawal, and management of debt or excess. A nation's general economic policy plan is closely linked to its economic policy, which is an essential component of its economic framework. Fiscal policy also affects monetary policy and contributes to economic trends. The government has a surplus when its receipts exceed its expenditures. The government has a deficit if it spends more than it takes in. It must borrow money from local or international sources, use its exchange reserves, or print an equivalent amount of currency to cover the additional expenses. This has a tendency to affect other economic factors.

Generally speaking, excessive money printing leads to inflation. If the government has a debt dilemma as a result of taking on excessive foreign borrowing. A balance of payments crisis could develop if it depletes its foreign exchange reserves. Excessive domestic borrowing by the government might result in higher real interest rates and also the domestic personal sector being unable to access funds leading to the crowding out of private investment. Usually, a combination of these will take place. In any case, the impact of an oversized deficit on long-term growth and economic well-being is negative. As a result, there is widespread consensus that a government shouldn't run an excessively large deficit. But in the case of developing nations, where the need for social services and infrastructure

Although there may be significant investments, it is generally maintained that it may not be prudent to run surpluses at the expense of semi-permanent growth (Fischer and Easterly, 1990). Meeting social and infrastructure demands while managing the government's finances so that the deficit or mounting debt load is not too high is the difficulty faced by the majority of developing country governments.

LITERATURE REVIEW

Numerous studies emphasize the part fiscal policy plays in economic growth. According to Keynesian economics, fiscal actions taken by the government can increase aggregate demand and promote economic expansion (Keynes, 1936). According to empirical research, public spending on healthcare, education, and infrastructure has a major positive impact on economic growth in developing countries (Barro, 1990; Easterly & Rebelo, 1993). However, inflationary pressures and debt crises can result from high fiscal deficits and inadequate fiscal management (Krugman, 1988).

According to research by Tanzi and Zee (2000), tax policy improvements in developing nations improve fiscal sustainability and resource mobilization, underscoring the significance of effective tax systems in generating income. Additionally, research from Sub-Saharan Africa indicates that higher government spending is favorably correlated with GDP growth, which generated cash effectively distributed (Gupta et al., 2002). Nevertheless, research also indicates that the benefits of fiscal policy are undermined by corruption and poor use of public funds (Mauro, 1995).

According to recent studies examining the effects of fiscal decentralization, giving local governments more financial authority improves both economic results and the provision of public services (Oates, 1999). However, these advantages may be hampered by issues like poor governance frameworks and insufficient institutional capability (Bird & Smart, 2002).

The literature emphasizes the dual effects of fiscal policy, pointing out that while planned fiscal policies can promote sustainable development, institutional inefficiencies and poor fiscal management may impede economic advancement in developing nations.

OBJECTIVE

1. **Development through efficient resource mobilization:** Fiscal policy's main goal is to ensure rapid economic growth and development. In order to accomplish this goal of economic growth and development, mobilization of financial resources.
2. **Effective Financial Resource Allocation:** Both the federal and state governments have made an effort to allocate funds in an economical manner. These funds are designated for development-related activities, which include spending on railways, infrastructure, etc., while non-development activities include things like interest payments, subsidies, and defense expenditures.
3. **Lessening of wealth and income disparities:** The goal of fiscal policy is to reduce financial disparities across radically diverse segments of society in order to achieve fairness or social justice. Income tax and other direct taxes are levied more on the affluent people than on the ones with lower incomes. Indirect taxes are extra when it comes to luxury and semi-luxury goods, which are mostly purchased by the upper and middle classes.
4. **Stability of Prices and Inflation Management :** Controlling inflation and maintaining value stability are two of economic policy's primary goals. Thus, the government's constant goal is to control inflation by lowering fiscal deficits, the implementation of tax-saving plans, the efficient use of financial resources, etc.
5. **Creation of Employment:** Through successful business enterprise measures, the government is making every effort to increase employment inside the nation. Infrastructure spending has produced employment, both direct and indirect. Reduced taxes and levies on small-scale industrial (SSI) businesses attract more capital, which in turn creates more jobs.
6. **Regional Development That Is Balanced:** Reaching balanced regional development is one of the economic policy's other primary goals. There are numerous incentives from the government for fixing projects in areas in need of improvement, such as financial subsidies, tax and duty breaks, financing at reduced interest rates, etc.
7. **Reducing the Balance of Payments Deficit:** Fiscal policy uses financial tools such as exemptions from central excise taxes and customs, exemptions from taxation on export earnings, and more to try to promote more exports exemption from tariffs and taxes on nuisances, etc. Additionally, the exchange is maintained by imposing customs duties on imports, offering financial incentives to import replacement industries, etc.
8. **Formation of Capital:** In order to quicken the pace of economic expansion, India's economic policy also aims to increase the rate of capital formation. An undeveloped The nation's capital shortage is the main cause of its vicious (and dangerous) cycle of poverty. Economic policy should be effectively crafted to promote savings and discourage and reduce disbursement in order to increase the rate of capital formation.

Role On Development In Country

In less developed economies, the several economic policy tools—budget, taxation, public spending, structure, and debt—can be used to sustain full employment without creating inflationary or deflationary pressures. Of course, taxes and public spending may be a potent tool in the hands of the government that significantly

influences shifts in investment, consumption, and disposal of financial gain. A tax program will boost an individual's income and encourage investment and consumption. This might ultimately result in more distribution actions, which would raise people's effective demand over time. Conversely, during inflation, anti-inflationary measures actions that help close the inflationary gap. Measures like these are implemented during inflation to help eliminate surplus purchasing power and customer demand. Because it might not impede fresh investment, the tax burden is increased in this way. Considering all of the information, it is stated that fiscal policy is crucial for fostering the stability and economic growth of less developed nations. It is depicted in the on top of the previously listed points.

Impact of Fiscal policy

The use of government revenue and expenditure collection to affect the economy is known as fiscal policy in economics. Other primary types of small policy, like as monetary policy, will interact with fiscal policy.

- The primary effect of fiscal policy, government spending, and taxation is a change in the amount and consumption of these variables in the economy.
- The primary influence of activity level and aggregate demand.
- The distribution of income and the pattern of resource allocation.

Mobilize Resources:

In developing nations, mobilizing resources from both the public and private sectors is the main goal of economic policy. Due to a low rate of savings, the {national financial gain value} and per capita income are often very low. Consequently, the by requiring investments, the governments of these nations raise the bar for capital production and investment, which quickens economic progress. In addition, it implements the public sector's planned investment agenda. The reduction of utilization and investment in ineffective channels, as well as the increase in private investment, will aid in understanding the nation's inflationary tendency. Additionally, these nations deal with the issue of foreign funding. Therefore, raising the saving ratio and the marginal tendency to prevent things from getting worse through public finance, taxes, and loan restrictions is the answer. Alternative policies that help mobilize resources include progressive taxation, high import duties on luxury goods, and prohibitions on the production of luxury and semi luxury goods. Thus, progressive taxation on capital gains, honorary incomes, windfall gains, expenditures, real estate, etc., can significantly contribute to a fair distribution of wealth.

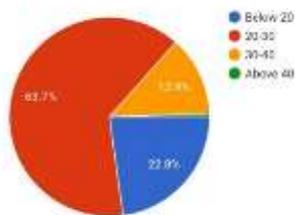
RESEARCH METHODOLOGY

This sectoral research is descriptive and exploratory in nature. A questionnaire survey was conducted among customers via social platforms for data collection. Around 150 people were approached to get the questionnaire filled but only 110 responses were achieved. Secondary sources such as research papers published in reputed peer reviewed journals were sourced to review the literature.

RELIABILITY OF SCALE

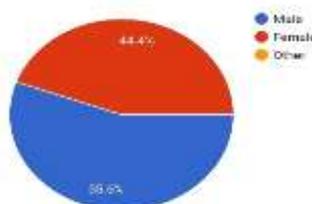
This study was based on self-structured questionnaire; therefore, we conducted a reliability test. To test the validity and reliability, we used Cronbach alpha through SPSS.

Fig.1 Age group



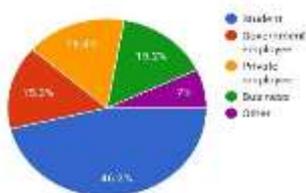
A major part of our respondents is age 20-30 and below 20 from the fig.1

Fig 2 Gender



It is inferred that the majority of the defaulting of the customer were male from the fig.2.

Fig 3 Occupation



It reveals that the most of the defaulting customer are student from the fig. 3

DETAILS OF SIGNIFICANT RESULT

Statement 1: Are you familiar with the concept of fiscal policy (government taxation spending policies)?

Table 1: Statement 1

S.No.	Response	Frequency	Percent
1.	Yes	101	91.81
2.	No	9	8.18
3.	Total	110	100

According to table 1, maximum respondents have said yes that they are familiar with the concept of fiscal policy.

Statement 2: How do you primarily learn about fiscal policies in your country?

Table 2: Statement 2

S.No	Response	Frequency	Percent
1.	Government reports	10	9.09
2.	News media	10	9.09
3.	Social media	6	5.45
4.	Academic studies	80	72.72
5.	Other	4	3.63
6.	Total	110	100

According to table 2, Assuming comparable interest rates and terms, the vast majority of respondents (90.6%) would favor a secured loan over an unsecured one. Just 4.7% of respondents said they would choose an unsecured loan, and 4.7% said they were unsure. This suggests that secured loans are strongly preferred, most likely because they are thought to carry a lower risk.

Statement 3: Do you think the current fiscal policies in your country support economic growth?

Table 3: Statement 3

S.no	Response	Frequency	Percent
1.	Yes	87	79.09
2.	No	10	9.09
3.	Not sure	13	11.81
4.	Total	110	100

According to table 3, The vast majority of respondents (79.09%) think that their nation's current fiscal policies encourage economic expansion. But 11.81% are unsure, and a sizable minority (9.09%) disagree. This indicates that most people have a favorable opinion of the fiscal policies in place, although some people are hesitant and unsure.

Statement 4: In your opinion, which fiscal policy tool has the greatest impact on economic development in your country?

Table 4: Statement 4

S.no.	Response	Frequency	Percent
1.	Taxation policies	39	35.45
2.	Government spending on infrastructure	22	20
3.	Public welfare programs	30	27.27
4.	Debt management	19	17.27
5.	Total	110	100

According to table 4, Taxation policies are perceived to have the greatest impact on economic development according to 35.45% of respondents. Public welfare programs come in second (27.27%), followed by government spending on infrastructure (20%) and debt management (17.27%). This suggests that people see taxation as a key driver of economic development, though the importance of other fiscal tools is also recognized.

Statement 5: Do you believe fiscal policy plays a role in reducing income inequality?

Table 5: Statement 5

S.no	Response	Frequency	Percent
1.	Yes	87	79.09
2.	No	10	9.09
3.	Not sure	13	11.81
4.	Total	110	100

According to table 5, The vast majority of those surveyed (79.09%) think that fiscal policy helps to lower income inequality. However, 11.81% are unsure, and a tiny percentage (9.09%) disagree. Although there is still some uncertainty, this shows a strong belief in the ability of fiscal policy to address income inequality.

Statement 6: What do you think are the biggest challenges facing fiscal policy in your country?

S.no.	Response	Frequency	Total
1.	Corruption and mismanagement	66	60
2.	High public debt	21	19.09
3.	Inefficient tax collection	10	9.09
4.	Insufficient government spending on infrastructure	13	11.81
5.	Total	110	100

According to table 6, According to the data, a sizable majority of respondents (60%) stated that corruption and mismanagement are the largest obstacle facing fiscal policy. The second most urgent issue is high public debt (19.09%), followed by insufficient government spending on infrastructure(11.81%) and inefficient tax collection (9.09%), which are also noted as major obstacles. These findings highlight how urgently fiscal policy needs to be improved in order to guarantee efficient resource allocation and foster long-term economic growth.

Statement 7: What do you think is the primary role of fiscal policy in your country?

Table7: Statement 7

S.no.	Response	Frequency	Percent
1.	Economic growth	33	30
2.	Income redistribution	25	22.72
3.	Controlling inflation	22	20
4.	Reducing unemployment	30	27.27
5.	Total	110	100

According to table 7, The answers are spread fairly evenly among the various important fiscal policy functions. The most often mentioned factor is economic growth (30%), which is closely followed by declining unemployment (27.27%). Inflation control (20%) and income redistribution (22.72%) are also deemed significant. According to this distribution, respondents are aware of the complex role that fiscal policy plays in accomplishing a range of economic goals.

Statement 8: Do you believe tax policies in your country are fair?

Table 8: Statement 8

S.no	Response	Frequency	Percent
1.	Yes	87	79.09
2.	No	10	9.09
3.	Not sure	13	11.81
4.	Total	110	100

According to table 8, The vast majority of respondents (79.09%) believe that their nation's tax laws are just. However, 11.81% are still unsure, and a tiny percentage (9.09%) disagree. This suggests that, despite certain worries and uncertainties, people generally have a positive opinion of how fair tax laws are.

Statement 9: Do you think government subsidies are helpful for economic development?

Table 9: Statement 9

S.no	Response	Frequency	Percent
1.	Yes	87	79.09
2.	No	9	8.18
3.	May be	14	12.72
4.	Total	110	100

According to table 9, The vast majority of respondents (79.09%) think that government subsidies promote economic growth. There are 12.72% who are unsure and 8.18% who disagree. This points to a generally favorable perception of how government subsidies support economic growth.

Statement 10: How confident are you in your government's ability to manage fiscal policy effectively?

Table 10: Statement 10

S.no	Response	Frequency	Percent
1.	Very Confident	66	60
2.	Somewhat Confident	26	23.63
3.	Not Confident	18	16.63
4.	Total	110	100

According to table 10, Although the majority of respondents (60%) have high confidence in their government's capacity to effectively manage fiscal policy, a sizeable portion (23.63%) have only moderate confidence, and 16.63% have no confidence at all. This distribution shows that opinions on the government's capacity to manage its finances are divided, with a sizable portion voicing some skepticism.

Statement 11: Would you support increased taxation if it leads to better public services?

Table 11: Statement 11

S.no	Response	Frequency	Percent
1.	Yes	87	79.09
2.	No	9	8.18
3.	May be	14	12.72
4.	Total	110	100

According to table 11, among 110 respondents, 79.09% (87) are in favor of higher taxes to enhance public services, whereas 8.18% (9) are against it. Additionally, 12.72% (14) are undecided.

Statement 12: Which fiscal policy tool is used to control inflation?

Table 12: Statement 12

S.no	Response	Frequency	Percent
1.	Increasing government spending	7	6.36
2.	Cutting subsidies and reducing budget deficits	88	80
3.	Reducing taxes	5	4.54
4.	Increasing social welfare programs	10	9.09
5.	Total	110	100

According to table 12, a significant portion of participants (80% or 88) pointed to "Cutting subsidies and reducing budget deficits" as the main fiscal policy approach to address inflation. A lesser number selected "Increasing social welfare programs" (9.09% or 10), "Increasing government spending" (6.36% or 7), and "Reducing taxes" (4.54% or 5).

Statement 13: What is a potential negative effect of excessive government borrowing?

Table 13: Statement 13

S.no	Response	Frequency	Percent
1.	Lower interest rates	7	6.36
2.	Higher inflation and debt burden	85	77.27
3.	Reducing in foreign aid	8	7.27
4.	Increased private sector investment	10	9.09
5.	Total	110	100

According to the table 13, a significant portion (77.27%) highlighted higher inflation and a heavier debt burden as major drawbacks of excessive government borrowing. Additional responses comprised boosted private sector investment (9.09%), diminished foreign aid (7.27%), and decreased interest rates (6.36%).

Statement 14: How can fiscal policy promote job creation?

Table 14: Statement 14

S.no	Particular	Frequency	Percent
1	By reducing government expenditure	13	11.81
2	By increasing interest rates	21	19.09
3	By investing in infrastructure and providing tax incentives to businesses	61	55.45
4	By cutting all public sector jobs	15	13.63
5	Total	110	100

According to table 14, a significant portion (55.45%) holds the view that fiscal policy aids in job creation by channeling funds into infrastructure projects and offering tax breaks to companies. Alternative views include raising interest rates (19.09%), eliminating public sector positions (13.63%), and lowering government spending (11.81%), although these options are generally less effective or could harm employment.

CONCLUSION

Fiscal policy plays a crucial role in the economic growth of developing nations. When designed and implemented effectively, it can foster economic expansion, improve social welfare, and maintain macroeconomic stability. Nevertheless, the success of fiscal policy is influenced by various factors, including the quality of governance, financial responsibility, and the capacity to adapt to economic disruptions. Policymakers need to embrace a well-rounded strategy that guarantees sustainable government expenditures, effective tax collection, and focused fiscal measures that encourage long-term development. Furthermore, governments should prioritize decreasing income inequality, boosting investment in human capital, and upholding financial discipline to prevent unsustainable debt levels. Tackling issues such as corruption, ineffective allocation of resources, and external economic volatility is essential for ensuring that fiscal policies achieve the intended developmental results. Future studies should concentrate on empirical case analyses and policy frameworks that could offer deeper understanding of best practices in fiscal management for developing economies.

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