Fiscal policy: An essential economic tool

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Summary:

In this paper, the ranging effects of fiscal policy and how it affects an economy shall be discussed in an empirical analysis. The discussion shall extend around the fiscal policy which is a policy on basis of tax and government spending adjustments, the types of fiscal policy and how much of a vital role it plays in an economy, and then further discuss the aggregate demand concept. There shall also be a brief analysis of the Helicopter money and then move on to an in-depth analysis of the fiscal policy implementation according to continents. There shall also be a discussion about the designation of fiscal stimulus in a world affected by the novel coronavirus. Overall, it shall talk about fiscal policy, its components and complements, and its evolution over the years.

Fiscal policy: An essential economic tool

Key terms: Fiscal Policy, Aggregate Demand, Inflation, Helicopter money, Fiscal stimulus, Covid-19.

1. Introduction:

An economy is complex, with numerous problems waiting to be solved. It may include recession, unemployment, inflation and many more. Often, the concept of "Aggregate Demand" plays a vital role in an economy, as it instigates many other factors including inflation and unemployment, and in turn the economic growth. For this very factor to be kept under control, Fiscal policy is used. Fiscal policy is the policy that deals with making adjustments on taxation and government spending to bring an effect on the aggregate demand. There are two types of fiscal policy; expansionary and contractionary. The type of usage of fiscal policy changes according to the effect on the components of aggregate demand.

The concept of fiscal policy dominantly surrounds the aggregate demand. An increase in the aggregate demand shall lead to problems like inflation, and to curb it, expansionary fiscal policy has to be imposed. In a contrasting situation of aggregate demand, falling shall result in unemployment and a drop in economic growth. The contractionary fiscal policy is then to be implemented. Fiscal policy strains have been a common occurrence in many economies around the world considering, economies are not devoid of problems for a longer period.

The sister policy of fiscal policy is the monetary policy that is usually used alongside it. This paper shall discuss briefly the unconventional monetary policy introduced by Milton Friedman in 1969, in his parable. It is a large influx of money into an economy during times of recession or a liquidity trap (Interest rates are pushed down to zero and the economy is facing a recession). At times of approaching recession, the Helicopter money tool has been executed by many countries, Japan being one of the first. Despite, the instrument has its perks, the negative side of a hyperinflation possibility never leaves. In a fiscal world, the Helicopter money is known to draw a line between it and the monetary policy and is said to play quite a significant role, as the novel coronavirus forces its implantation.

The usage of fiscal policy differs according to continents and their levels of economic development. Countries all over the world are known for the implantation of fiscal policy in their style. When talking about economic zones, we are reminded of SAARC, EU and many more. These regions mainly follow expansionary fiscal policy, which is usually countercyclical. Countries like China were one of the only ones which were saved from the immense effects of the GCF for implementing a countercyclical fiscal policy alongside many other effective instruments. Latin American countries, on the other hand, have been an exemplary example of fiscal indiscipline till the 1990s for following a procyclical fiscal policy. It had, however, come out of that cycle although the variation is still doubted by experts. Whenever we mention the US and fiscal policy, the fiscal stimulus from the Global Financial Recession always comes to mind and how it was tackled by using aggressive expansionary fiscal policy. Canada during the early 20th century mainly depended on the monetary policy but as time went by the fiscal policy emerged, and now a mix of both is used. Africa on the other hand, due to mainly having developing countries, is in a position for fiscal inflexibility but as growth is making intervals the fiscal space is expected to increase. The fiscal status of Australia, additionally, evolves with the change of government. The types of fiscal policy and the dependence that has developed over the years in countries like the USA, Canada, African Countries and Australia have also been discussed.

Fiscal multipliers have a huge role to play a huge role in times of declining economic growth. In recent times, the global pandemic which is a result of the novel coronavirus has instigated quite a lot of fiscal

multipliers to make its entry in the show. Also, whenever talking about fiscal policy, the mention of the 2008 great recession always makes an appearance. The situation of the covid-19 had seen similarity with the fiscal stimulus of the great recession. During the great recession, the federal deficit was said to increase from -1% to 8%. However, the covid-19 had seemed to surpass the great recession in terms of discretionary fiscal stimulus, by holding 11.2% of the GDP, while the great recession had 7.2% of the GDP. These two figures portray a very common economic hurdle, both of which had fiscal implementation as a way to control it. The monetary situation had become too scattered at times, the concept of helicopter money to boost economic growth were taken into consideration. Research conducted on the effect of imposing helicopter money on the Marginal Propensity to consume in seventeen European countries gave signs of diverse effects on the economy. The fiscal stimulus is ever-growing all across the world in such an uncertain situation and a proper stand has to be grown to avoid any sort of financial disruption once the storm is over

According to countries, the type of fiscal policy varies and shall be discussed further in the paper. In this paper, we shall discuss more fiscal policy, the role it plays when making economic decisions, The literature review gives an overview of the fiscal policy, the role of aggregate demand and its components and mentions the role of fiscal policy during the Global Financial Crisis. Section 1 talks about Helicopter money, its history and its pros and cons. Section 2 moves into the analysis surrounding the fiscal policy execution according to different continents and how they had evolved over the years. Section 3 discusses how different countries use fiscal policy to tackle different issues and also how the Covid-19 had shed light on fiscal policy and its similarity to 2008, the great recession. The paper concludes with a summary of the whole fiscal concept.

2. Literature review

When the operation of an economy takes place, varieties of issues block the path of smooth operation. There is inflation, wars, pandemics, recession and many others. At times, the clash in the government objectives set, prove to be one of the major issues causing a bottleneck. The solution of one problem may be the reason why another had started. Disagreements remain as a filler in the background. Now there must be some common answer to each of the problems. If an unemployment season peaks due to an ongoing recession, what would be the first step taken by the government? Maybe spending a significant portion of the funds available to unemployment benefits. All of it is one huge maze, there is no straightforward answer.

Fiscal policy. As critical as the term may sound, is one of the most commonly used concepts in the world of economics. Fiscal policy is the policy that deals with making adjustments on taxation and government spending to bring an effect on the aggregate demand. There are two types of fiscal policy; expansionary and contractionary. Expansionary fiscal policy is used when there is usually a decrease in the aggregate

demand, so the issue is tackled by increasing government spending and tax cuts. Contractionary fiscal policy, on the other hand, is where government spending is put to a minimum while the tax rates are elevated to push up the falling aggregate demand back on spot.

The type of usage of fiscal policy changes according to the effect on the components of aggregate demand. The topic of aggregate demand plays quite a significant role in an economy and can be considered the driving force of the microeconomy. A drop in the aggregate demand would mean that there is a reduction in the opportunity for the firms to earn higher profits, which in turn leads to a hindrance in the macroeconomic objective of decelerating the unemployment rate, as firms begin to follow the process of redundancy to survive well. The components of aggregate demand are what causes a reaction. It mainly includes:

= (Consumption) + (Investment) + (Government Spending) + (Total exports – Total imports)

A fluctuation in either of the components shall result in an effect on the aggregate demand like a domino effect. A situation of increased investment, for example, would mean firms are getting more funds in hand to produce goods at a lower cost than usual. This decrease in the production cost, like a chain effect, is likely to lead to a lowering price in the market which is often viewed as a favourable situation for the general public. This would increase the aggregate demand, as, like a swarm of bees more people crowd in to buy the products. In situations of increasing aggregate demand, inflation follows as producers increase prices hoping to seek the scope of earning higher profits. The fiscal policy then steps into the show. The implementation of contractionary fiscal policy such as decreasing government benefits and increasing taxes shall lead to reduced income and hence less spending. This shall as a result curb inflation. Fiscal policy is a powerful influence instrument and potentially leaves a long and lasting effect on an economy.

In accordance with the Keynesian theories, aggregate demand has a vigorous effect on the economic output and inflation, and it does not necessarily equal the productive capacity of an economy. This is a very common model to use whenever analyzing the fiscal sector. In the Keynesian, fiscal policy should be countercyclical or at least acyclical concerning the business cycle, meaning during an economic boom the ratio of public expenditure to GDP should decrease while the ratio of revenue should increase to construct a positive fiscal balance (Alesina et al, 2008). During a recession, however, the public expenditure should increase in consequence of discretionary fiscal policy implantation for the stability of the cycle (Galı, 2005).

More generally, fiscal policy can act as an economic growth booster through both macroeconomic and microeconomic channels (IMF, 2015a). At a macroeconomic level, fiscal sustainability is considered to be the backbone of macroeconomic stability, which is crucial for economic growth. A deficit in the

government budget may instigate instability and thus, a downturn in economic growth which shall trigger mayhem among companies and discourage private investment. At the microeconomics level, spending and taxation can influence the behaviour of firms in the market which can lead to stimulation of growth. Well, structured tax incentives shall encourage better investments and promote productivity with the assistance of research and development.

Whenever talking about the fiscal policy, the mention of the 2008 great recession always come into the show. It started in 2007 December and ended in June 2009, the effects still leaving a recovering scar on the economies all over, making it the longest recessions since the Second World War. GDP was assessed to fall by 4.3% from its peak in the fourth quarter of 207 through 2009 (Federal Reserve History 2013). Unemployment rose by 5% from 2007 to 2010. The deepening crisis triggered the government of The United States and many others to implement a fiscal stimulus program to revive the economic growth. The fiscal primary deficit rose to 8% from -1% as a portion of the GDP, which included the $840 million American Recovery and Reinvestment Act (ARRA) of 2009 and $170 billion in tax rebates from 2008 Economic Security Act. The discretionary stimulus was about 7.5% of the GDP.

2.1. Helicopter money:

The sister policy of fiscal policy is the monetary policy. Monetary policy is the adjustment of the money supply, interest rates and exchange rate to bring an effect on the aggregate demand. Fiscal policy is usually used alongside the monetary policy to even out problems occurring in the economy. As discussed in Alesina and Perottie (1995), the fiscal policy has a trend of being overly expansionary, especially in developing economies, at times of economic expansion, the government spending tends to be high. In order to tackle this increased spending, the burden of steadiness is poured onto the central bank who takes the aid of the overly contractionary monetary policy. Fiscal and monetary policy are usually used to instigate economic activity. They are used when an economy's pace slows down or they become overheated. They are also executed to redistribute income and health. Both fiscal and monetary policy has the goal of constructing an economic environment of steady growth and inflation rates. Importantly, the target is to navigate the underlying economy to avoid booms that lead to periods of high unemployment and low growth. The fiscal and monetary policy has seen quite a lot of interactions over the years which has proven to be effective, despite few hurdles of price shocks (CFA Institute). In simple words we can agree, that fiscal policy within itself cannot be an effective tool to run an economy, and help from other sides are also relayed. One of such unconventional monetary policies is the concept of "Helicopter money".

In 1969, Milton Friedman, an American economist and statistician, coined the term "Helicopter money" to illustrate the effects of monetary expansion. The entire topic surrounds the large influx of money into an

economy when the economy is suffering from a liquidity trap (Interest rates are pushed down to zero and the economy is facing a recession). The primary concept was that the central bank would directly pay individuals, as a monetary stimulus where the money supply and the direct distribution of cash are done to spur inflation. Friedman's metaphor of dropping money from a helicopter to portray the effects of expansionary monetary was taken into the account by the former Federal Reserve chair Ben Bernanke in his speech in November 2002. The reference taken from his speech was then used to combat the shrinking economy of the US from the 1930s, as he had outlined in his speech.

In simple words, a helicopter drop is an irrevocable acceleration in the nominal stock of fiat base money with zero nominal interest which respects the intertemporal budget constraint of the consolidated central bank and the fiscal authorities. It is an alternative to the concept of “Quantitative easing” where the central bank purchases non-monetary sovereign debt held by the public in an open market, through an unchangeable increase in the stock of base currency. A helicopter money concept, on the other hand, allows the government to purchase fresh public securities whilst providing direct seignorage to the government.

For the helicopter money to be running and successful, three necessary conditions are due to be met. Firstly, counting out its fiscal rate of return, there must be other benefits available for holding the fiat base money, then only the money will be held voluntarily despite having a positive risk free nominal interest rate. In second comes the factor of fiat base money being incurable; it is considered an asset by the holder but not a liability by the issuer. This is a mandatory situation for helicopter money to work out in a liquidity trap. Last but not least, the price of money has to be positive

Helicopter money is a tool usually implemented during a recession or a liquidity trap. A recession is a period of dropping economic growth for two consecutive quarters. Liquidity trap, however, is a term that is not commonly used whenever speaking about generalized economics. It is a situation where interest rates are very low and the savings become unexpectedly high. As a portion of the liquidity trap, households like to keep hold of the funds that they may have and keep them stored in banks and other financial institutions. Savings become so low that lower interest rates have to be deployed for the consumers to be encouraged to spend more. Despite, the central bank’s attempt to splurge more money, the negative belief of uncertain economic conditions makes the monetary policy somewhat ineffective. The fuel is further added to the fire with the lack of incentives among banks to attract qualified borrowers as the interest rates are at abounding of zero, which means lower chances to gain a profit. Such a situation had occurred in Japan.

From the 1960s to the 1980s, Japan achieved one of the highest economic growth rates in the world. This growth was led by high rates of investment in productive plant and equipment, the application of efficient industrial techniques, high standards of education, good relations between labour and management, ready

access to leading technologies and significant investment in research and development, an increasingly open world trade framework, a large domestic market of discerning consumers, which has given Japanese businesses an advantage in their scale of operations. However, from the 1990s Japan started experiencing deflation and this downward spiral has been going on for a long time till now despite their increasing GDP. After the initial economic shock, Japan's economy was sent into its now-infamous lost decade, where economic expansion halted for more than 10 years. The country experienced low growth and deflation during this time, while its stock markets hovered near record lows and its property market never fully returned to its pre-boom levels. The bank of Japan decided to tackle the situation of interest rates almost falling to zero by deploying an aggressive monetary policy. The reason for this situation is blamed on the excess ageing population by many experts. The financed tax cuts were considered to be a form of helicopter money implementation during the 2000s.

In 2016, in a serious discussion with Shinzo Abe and Haruhik Kuroda (BOJ), it was suggested by the former Federal Reserve chairman, Benn Barnake, that financing government debt to aid infrastructure projects as a tactic to implement a helicopter drop to boost the economy and put a barricade in the deflation can be beneficial. A month later, the Bank of Japan was seen to be taking into consideration the "Helicopter money" concepts whilst reviewing their monetary stimulus programme, however, it is not to be considered so until and unless it is the central bank printing out money and directly paying households. (Helicopter Money - Wikipedia)

However, any economic concept in the world has both sides to show. A situation to implement the Helicopter money in the Eurozone had occurred, and the pros and cons all have to be considered. Favourably, the helicopter money allows the central bank to insert more money into the economy to push down the effect of the deflationary phase, as the central banks are yet to receive the expected inflation levels through other instruments. Since the effect of the financial crisis, the continuously falling prices in the euro area, have come out as a warning for the companies. The helicopter money changes the scenario. The financial crisis had caused a massive variation in the Eurozone economies, where zero interest, negative interest and quantitative easing have proven to be inefficient. This overall increases the appeal towards Helicopter money, with the hope that the additional demand generated by it may stimulate higher prices and growth.

The ECB could buy government debts in the form of an indefinite loan without triggering the inflation to overshoot the target, in the pretence of helicopter money mainly because the monetary policy is not overly inflationary. The central bank can always grip excess money by offering debt securities. Moreover, this concept has specific variants which are legal and the central bank could operate for a long while with

negative equity without having to recompense for it, and the government would not even have to pay for it through back door.

On the negative side, IP points out that "the institutional separation between monetary and fiscal policy. That separation exists for a good reason: Central banks were granted independence so that they would not become the printing press for feckless politicians" Bernake puts forward the argument that the governance plays a huge role in the implementation of the MFFP, which is because it would require close coordination of legislature and central bank, which may put a risk on the long term independence of the latter. Krugman adds that "A deficit ultimately financed by inflation is just as much of a burden on households as one ultimately financed by ordinary taxes because inflation is a kind of tax on money holders. From a Ricardian point of view, there's no difference between". It may have disastrous consequences if the central bank just prints money to solve their problems. People would start believing that they would no longer have to work and in the next election voters would lay out the same demand to the government. There growing concerns that if the government becomes too used to printing out money, they may think that it is too good of a tool to give up even in good times. In future consequences, there would be a huge issue of hyperinflation and the cases for savings, investment and growth would be dramatic. Citizens would lose confidence in their currency stability and monetary system. Such a move was made on countries like Zimbabwe and Argentina which had catastrophic results. The most important caveat is that helicopter money risks blurring the boundary between monetary and fiscal policy. Today, politicians and economists want to abolish cash. So helicopter money may not be efficient.

A helicopter money drop is always aid to boost demand, considering the purchasing power of the public increases with individual demands made. The marginal propensity to consume increases with it. As the situation of the novel coronavirus elevate the concept of helicopter money is being shed light into, as the fiscal and monetary responses need to be expansionary. Thus, it can be agreed that this concept has a significant role to play in the fiscal world, and in the coming world of recession amidst the pandemic, it may become a common way to help the economy recover. The effects of the pandemic and how concepts like helicopter money can be put to use for a better recovery is further discussed in this paper.

2.2. Continent-wise analysis

The concept of fiscal policy is not only an economic topic, it is rather an economics tool that is made use of frequently whenever a certain uncertainty occurs in an economy. Fiscal response during a recession or an economic boom plays a vital role. However, each economy has a different way of using fiscal tools to boost or bring down aggregate demand. A developing country would be more familiar with using an expansionary fiscal response, while a country that is developed and facing rising inflation would do the

opposite. In this paper, we shall further discuss the trends in the fiscal policy usage of the different continents and their countries.

Asia:

The largest continent of the world, consisting of 50+ economies operating. One of the continents with one of the largest and booming economies of the world but also one of the poorest ones. The occurrence of having to provide a fiscal response is a given.

China being a country that had flourished economically in a major way since 2016, with its GDP growth said to have had a 6.1% change as of 2019 (World Bank 2019). China's fiscal system was said to be one of the driving factors for its quick economic growth. The findings of a study conducted indicate that the expenditure of the local government has more contribution to the output growth than the central government and net tax does. Fiscal policy is playing a vital role in the economic development of China. When the Great Recession hit the shore, the defence of a massive countercyclical fiscal stimulus is what saved China was falling into the vicious cycle of a recession. Kong and Feng (2019) found out that China's countercyclical fiscal policy is used regularly and it achieves the expected effects. Surprisingly, the expansionary fiscal step of tax cuts has had a positive effect on the Chinese economic output. Research has also estimated China's fiscal multipliers and it was found that China's fiscal multiplier increased from 0.75 in 2001–2008 to 1.4 in 2010–2015, with the biggest impact on the manufacturing sector according to the estimation of Chen et al. (2017).

The South Asian Association for Regional Cooperation (SAARC) has one of the finest examples of emerging economies. Ruling at the top of economic growth with an average growth rate of 7-8 per cent in the last 30 years, it is only normal that the usage of fiscal policy is implemented. The SAARC community consists of countries like Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. In South Asian countries, are faced with resources constraint which forbids their financial expenditure in several areas. Despite being urgently required, South Asian countries face considerable constraints on the financing of the fiscal deficits that result from their expenditures being in excess of their revenues. South Asian countries have faced low tax to GDP despite its strong growth path in the last few decades. The problem relating to high population growth and corruption is complemented by low per capita and weak legal enforcement which makes the tax evasion in these countries much higher than usual. So the fiscal policy is usually a mixture of both expansionary and contractionary.

In the first quarter of 2009, industrialization had decline globally and the exports in East Asia (e.g. China and Japan) declined by 50 % or more, and in Korea by 43%, presaging the largest trade contraction since

1929 (Lin, 2009). Other transmission channels through which the contagion spread include sharp reductions in investment and remittances. In that situation, fiscal stimulus was used to release the bottlenecks and keep going. In conclusion, the prospects of a strong recovery led by fiscal stimulus are real and achievable and there has been evidence in Asian countries.

Europe:

This region of the world is known to have the most developed and technologically advanced economies. The European Union consisting of 27 sovereign states who are together in a treaty to share obligations and responsibility of membership. As we near the 27th anniversary of the EU, we are still lingering in the debate that how such diverse countries can make an optimal currency area. The main lever of the EU nations at a national level is the fiscal policy. The fiscal policy mainly remained procyclical in the Euro areas than those in other countries but they were not structured to tackle asymmetric shocks during 2008 which had put a risk on EU nations as it fell into recession from the procyclical policy generated government debt in 2010.

A contractionary fiscal policy was implemented after two years of disruption because of excessive debts and deficits. As the growth began to decrease in the years 2008-2009, budget deficits had increased alongside due to the implementation of automatic stabilizer. Governments began to turn to discretionary fiscal policy and fiscal stimulus packages which had decreased the structural budget balances alongside which the debt-to-GDP ratio was increasing. This forced governments to the path of having to reform fiscal policy of now and also consider those of the future. The revisions were crucial as they continued despite the Euro area stepping into its second recession in 2012. To date, the Euro area GDP remains 15% below what it was projected to be. This showed the significance of properly planning out fiscal structure.

The United Kingdom is another example of a developed economy, the fiscal policy measures and shocks are well recognized. A theoretical analysis by Bhattarai and Trzeciakiewicz (2017) present the fiscal policy implication from 1985-2011 in the UK. Their parameter indicates that public consumption and public investment are the most effective tools to control the government in the short run, whereas capital tax and public investment are those to consider in the long run. Public transfers yield a lower multiplier although several cuts in the public investment may have adverse effects on the economy. Capital taxes on the other hand are not as effective when attempting to stimulate economic growth. All these situations are analysed according to the fiscal stimuli in the UK over the years. In the last decade, Russia has been using expansionary policy in terms of expenditure and contractionary policy in terms of revenue which had been stimulating effects and their budget policy.

Africa:

Despite seeing improvement in the past few decades, we still end up thinking of Africa when taking into consideration the underdeveloped countries, have widespread inequality and poverty. Despite an increase in tax revenue and grants, Africa remains behind. This reduces fiscal flexibility in terms of spending on social welfare. The increase in the level of official development assistance was tamely from the boom in primary commodities price which accounted for the rising level of revenue as a share of GDP and not efficiency in tax administration. The international trade tax in African countries, especially developing ones like Nigeria, the Democratic Republic of Congo, etc., has seen a decline ever since 1990. The largest decline occurred from 1991-2010, which was recorded to be the least in the developed region. Income tax, however, rose all over developing regions while it declined in the developed regions.

The taxation system in African countries is usually regressive with accordance to low-income groups, low fiscal usage and low distributional impact of fiscal instruments cut down the impact that fiscal policy distribution could have on Africa. The size and the level of government spending are dependent on the aggregate demand generated. As a matter of fact, according to Odusala (2017), fiscal policy should be used to enhance the growth of job-rich, skills-enhanced and human capital-driven. This can ensure growth in the long-term, social cohesion and prosperity and also increase the fiscal space.

North America:

As always when we talk about fiscal policy, the mention of the great recession of 2008 always comes into show, which was started initially in the United States of America, which is a North American state. The U.S federal response to the Great Recession included the Economic Stimulus Act 2008, signed by President Bush and the American Recovery and Reinvestment Act signed by President Obama in 2009; both of them included discretionary fiscal stimulus with a total of 1.5 trillion dollars during the five years. The stimulus accounted for 2.0 of the GDP throughout the next five years. The automatic stabilizer in response to the recession was considered to be the largest in history for a response to a recession, dominating 3.4% of the GDP. This phase of fiscal was well necessarily opportunistic as Congress hoped for as much fiscal support as possible, including the increase of government spending and tax cuts. Overall, the discretionary fiscal stimulus had played a significant role in the economic recovery of the U.S, although experts were skeptical of its success.

Ever since 1945, the Canadian federal government has committed itself to the fiscal policy intending to maintain high levels of income and stable employment. During the 1950s, after the Korean War, the stability of the Canadian government was assured partly with the assistance of fiscal policy. However, towards the 1960s after Keynesian economics came into light, the policy focus shifted to become a mix of monetary and fiscal policy. A sustained growth potential brought confidence in the usage of aggregate demand

policies, as it was believed that stable employment levels were achievable if people agreed to adjust to the inflation levels. The finance minister had announced their first balanced budget targets in 1998-1999, which had soon morphed into a series of budget surpluses till 2008, recording a peak of $14 billion. A budget deficit of $55 billion was projected due to excess government spending due to the global recession. The deficit forecast continued till 2015, till a forecast of a small surplus hit the scene in 2015-2016.

Latin American countries like Mexico, Cuba, Haiti, Panama and the Dominican Republic had been implementing countercyclical fiscal policy to tackle the negative shocks and social issues which were a consequence of the macroeconomic shocks of around 2015. Despite the tax structure developing vigorously, the expenditure side of these economies still face issues, and the increasing political uncertainty is doing no good to it.

South America:

Latin American countries tend to impose more procyclical policies. Until the 1990s Latin America was chosen to be a demonstrative example of fiscal indiscipline. This bias was explained with historical coexistence on the thorough dependence on the external situations, weak tax structure and multiple public expenditure rigidities (Cornia et al, 2011). Fiscal reform was, however, imposed in the late 1990s due to the constant economic volatility caused. Although, experts argue that the fiscal structure in recent years did not have much variation. During the economic crisis, fiscal behaviour was affected by the political and institutional factors which had instigated the fiscal reforms. All credit to policies containing public spending and accelerating revenue, these countries were able to score a positive balance. Moreover, in recent years these countries have come in the face of public expenditure deterioration due to inefficiency despite having shown efficiency in the taxation sector. Despite, measures being taken to increase fiscal space and stability, the aggravating external situation and political disruption remain a challenge to the stability.

Australia & Oceania:

Over the past two decades, the performance the Australian economy has displayed was indeed appreciable. The Australian economy had enjoyed sustained economic growth whilst combatting the biggest global economic crises including the 1997 Asian Crisis, the “Dotcom bubble burst” of 2000 and the infamous Global Financial Crisis of 2008-09. The recession of the 1990s had, however, resulted in severe impacts on the economy, resulting in unemployment and inflation. In defence, the government had adopted an expansionary fiscal policy. It was continued by the Keating governments increased spending on human capital and workforce development, which led to an efficient workforce with rising wages. This rising income resulted in increased spending and hence, increasing aggregate demand.

The Howard government, on the other hand, had adopted a contractionary policy in 1996 to battle the increasing government debt. The Rudd government continued the legacy of the Howard government, but it was soon to be changed due to the appearance of the Global Financial crisis originating from the United States. The Rudd government shifted to an expansionary fiscal policy with the construction of a stimulus package targeting to increase the government spending to overshadow the effect of the GFC. The Rudd Government also included investment in infrastructure and job support programs as a key focus of its stimulus package. In the end, $55 billion in June 2010 or 4.4 per cent of GDP. But what could be agreed is that the Australian government maintains a strong footing, with strict regulatory, fiscal and monetary controls.

The fiscal shocks of government expenditure shocks in New Zealand are positive but small in the shorter term but in the form of higher interest rates and lower output in the long run. The tax cuts effect on the GDP remains comparatively minimum. Through historical analysis, it can be seen that the fiscal policy in New Zealand has been using discretionary fiscal policy over the past fifteen years, which has had a procyclical effect on the economy. The fiscal policy has also had a positive but limited impact on the inflation rate.

Overall, the continents have all been affected by the Global recession and many other economic situations. The fiscal policy has evolved over the years if not all, in most of the continents.

2.3 Fiscal Policy amidst the Covid-19

The novel coronavirus has been raging havoc all over the world. The medical situation of people around the world has only been deteriorating over time. The virus was triggered in the city of Wuhan, in China from a virology lab and is now infecting millions of people all over the world. The novel pandemic has wreaked the economies sending booming ones into recession, putting millions into a phase of unemployment all while worsening the inflation rate in developing countries. Governments all over the world responded to the crisis by aggressively deploying expansionary fiscal and monetary policies, which included preventive and calmative health measures alongside extensive macroeconomic policies. Governments all over the world had put their populations on lockdown to prevent the further spread of the virus, which according to the International Monetary Fund (2020) had plummeted the world growth by 5% before a recovery in the following year. The Covid-19 crisis brought in a global budget deficit due to a slump in the usual corporate, income and indirect taxes collected complemented by an increase in government spending on unemployment benefits, health and social welfare reasons. It was estimated by IMF that a 14% deficit in the global GDP by 2020, and a 10% rise on the previous year, which was thrice the result of the Global Financial Crisis.

The federal fiscal response accounted for four phases. The first two involved financings medical aid, food assistance, medical aid and Covid-19 health-related leaves. The third phase which was predicted by CBO (2020) to cost around $1.7 trillion, to spend on the Coronavirus Aid, Relief and Economic Security (CARES) act. This was also the largest stage, followed by the fourth phase which was mainly provision of supporting finance to the earlier phases especially funding the infant firms' loans by converting them to grants. The policy response to the Covid-19 was discretionary and is predicted to add about $2.4 trillion to the federal deficit over the next year. The fiscal policy response is divided into five main broad sectors; transfer to individuals (23%), government consumption through direct federal purchases of goods and services (24%), State and local government transfers (12%), grants and unrecovered loans (29%) and tax provisions (11%). The discretionary fiscal stimulus of the Covid-19 crisis accounts for 11.2% of the GDP.

In comparison to the Global Financial Crisis, there have been shreds of evidence of a fiscal multiplier in the Covid-19 crisis as said by Daniel J. Wilson (2020). A fiscal multiplier is a method used in macroeconomics to denote the effect of tax changes and government spending on an economy in a specific period. . A multiplier of 1.0 implies a $1 increase in GDP results from every $1 of stimulus. Wilson centred his focus around Individual transfers, Government consumption and State and Local government transfers. From his analysis, it was concluded that firstly, the Marginal Propensity to consume was high in times of high unemployment and liquidity constraints, inferring a fiscal multiplier of one or above. The marginal propensity to consume and gross income are inversely related. Research conducted by K. Drescher, P. Fessler and P. Lindner (2020) on the marginal propensity to consume and the implementation of helicopter money across seventeen European states. The marginal propensity was said to be the lowest in the countries in developed countries like Netherland and Portugal at 33% and the highest in developing countries like Greece and Lithuania at 57%. This shows the negative correlation between them. It was said that if helicopter money is implanted in these areas would have miscellaneous effects across different countries, but within them, the effect would vary according to the spending patterns. This is highly likely to impose a multiplier. Secondly, Wilson stated that State and local government transfers tend to have a high marginal propensity to spend out during times of fiscal strains, instigating a dollar-to-dollar pass through. Lastly, the fiscal multiplier on government expenditures during zero-bound interest periods tend to be around 1.5. Overall, the output growth because of the fiscal response is expected to be high.

A vast range of fiscal policies was implemented by government and central banks all over the world to tackle the Covid-19 crisis. Government spending, tax cuts, and transfers were done to recover the economies from this comatose. There have been explosions of public debts all over the world, as the budget deficits continue to increase with the cases. For assurance of increasing negative effects of the public debt does not spread further strict debt management measures are to be taken. The continuous ramping up of

fiscal stimulus may serve as macroeconomic costs of the future. Supply-side measures were taken to tackle this problem as well which were proved to be superior to the fiscal stimulus. The question, however, remains how sustainable they shall remain in the longer run.

3. Conclusion

The paper analysis the overall effect of fiscal policy on an economy. The core of economic policies is somewhat built on the fiscal and monetary policy, both of which has played a vital role overall as the world passes through an economically uncertain situation. As of 2020, the advanced G20 has had a fiscal balance of -11.7%, while emerging G20 economies and low income developing countries have had -9.8% and -5.5% fiscal balance respectively, in accordance with the International Monetary Fund (IMF) database. This shows the rigorous implantation of fiscal policy in terms of spending to protect the economies from sliding into a recession. Plans are being set out to improve the fiscal balance by improving the design of fiscal rules or by "preapproving" future tax reforms. This shows the governments use fiscal policy as an essential tool and thus, it is important to recognize its significance and shed more light on it, to be able to make more effective decisions for the economy.

As we thoroughly went over the analysis of the whole policy structure, we have come to the conclusion that fiscal policy measures are not always effective. In the case of South America being taken into the account, the fiscal policy remained fairly procyclical for a long time, and this had not positively impacted the economies in the region. Despite the reform after the dark period, the political instability and the external disruption is still standing as a barrier in the path of increased fiscal space. This on its very ground proves that the fiscal policy alone in itself is not as effective. The effectiveness of fiscal policy can have numerous faces but if we speak in generalized terms the effectiveness of the policy should be assessed on basis of the legally circulated policy aims.

The fiscal policy is closely related to the monetary, as the primary aim of both revolves around the aggregate demand. The concept of helicopter money discussed in the paper is one such economic policy concept that requires close coordination of the monetary policy and the fiscal policy. It can be agreed that both policies are correlated as during a time of really lower bound interest when the monetary policy becomes somewhat ineffective, it's the expansionary fiscal policy that takes control to lead it back to place with the shadowed aid of the monetary policy.

Furthermore, assessing the economic situation of countries over time with the fiscal policy on the side shows that it has indeed revolutionized the system of few economies. Africa being a comparatively underdeveloped region has seen its perks of using fiscal policy which had instigated economic growth

shocks, but due to fiscal space restraint, the large scale implementation. Considering the case of Australia on the other hand which is taken into account whenever considering the list of developing countries. Every government that came had considered the fiscal policy in their policy decisions, despite each of them using a different style. Also in the case of the USA and many other countries, it is fair to say that the fiscal stimulus had been a protector for the economies from falling into a phase of absolute poverty.

The era of fiscal stimulus is indeed growing as the novel coronavirus puts the economy at great stake. Governments all over the world are aggressively deploying fiscal policy. The economies remain within the danger zone still, as the fiscal stimulus as a share of the Global Financial Crisis is still comparatively higher than it should be standing at 11.2% of the GDP. The federal is responding to this crisis in a series of four steps but the situation keeps getting uncertain as the virus mutates into different forms. The global economy is in a state of fluctuation and at such a time fiscal policy measures are keeping many sectors of the economy going despite the government s falling into debt. After this phase is over, a budget deficit is a given and the usage of contractionary fiscal policy should be one of the considerations as a path to recovery.

Therefore, after a whole paper thoroughly analysis the fiscal policy and all its components. Fiscal policy is an effective measure dealing with taxation and government spending schemes to bring out an effect into the aggregate demand of the country. It does not only surround the aggregate demand concept but also solving the economic hurdles, and traditionally has been a priority, and continuing. Overall, it can be agreed without fiscal policy implementation many sectors of an economy are likely to face difficulties.

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