

Fiscal Size and Composition Effects on Growth: Empirical Evidence from Asian Economies

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Abstract : This paper investigates the impact of the size and composition of government expenditure and tax on GDP per capita growth in 36 Asian economies over the period of 1991-2012. The research employs the technique of panel regression; Fixed Effects and Generalized Method of Moments (GMM) as well as other statistical and descriptive approaches. The finding concludes that the size of government expenditure and tax revenue are generally low in this region. GDP per capita growth is strongly negative in response to Government expenditure, however, no significant relationship can be measured in case of size of taxation although it is positively correlated with economic growth. Panel regression of decomposed fiscal components also shows that the pattern of allocation of expenditure and taxation really matters on growth. Taxes on international trade and property have a significant positive impact on growth. In contrast, a major portion of expenditure, i.e. expenditure on general public services, health and education are found to have significant negative impact on growth, implying that government expenditures are not being productive in the Asian region for some reasons. Comparatively smaller and efficient government size would enhance the growth.

Keywords : government expenditure, tax, GDP per capita growth, composition

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