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FISCAL MULTIPLIER ESTIMATES IN NORMAL TIMES ACROSS STRUCTURAL FACTORS : NEW EVIDENCE FROM PANEL LATENT THRESHOLD MODEL FOR DEVELOPED AND DEVELOPING ECONOMIES.

Abstract:

Government spending as a stabilisation tool has been largely discussed in the literature for stimulating growth in the economy. But there exists several structural factors i.e., fiscal multiplier determinants which together determine the fiscal behaviour. Literature has widely discussed non-permanent or conjunctural factors i.e., state of business cycles or policy related factors having detrimental impact on the fiscal multiplier. But have not discussed the structural factors role which regularly impact the fiscal multiplier value therefore our study has focused on the structural factors role in determining the fiscal multiplier behaviour in normal times. Structural factors such as import propensity of trade or higher public debt ratio negatively affects the fiscal multiplier while higher financial infrastructure of an economy, higher development levels and more female labour force participation positively affects the behaviour. Fiscal multiplier determinants have theoretically explained the fiscal behaviour over time and across countries. Impact of these fiscal multiplier determinants is changing beyond a certain threshold level, thus analysing the linear impact of these factors would be misleading. Firstly, we have estimated non-linear behaviour of fiscal multipliers contingent on structural factors. Secondly, in our study, we have comprehended for latent groups existence across developed and developing economies unlike literature, which has just classified countries' fiscal multiplier into either developed or developing countries group which might not be the scenario. Thus, our paper has applied the Panel Latent Threshold Model (Miao et al. 2020) to assess the above statement for 49 countries comprising both developed and developing economies. Our findings suggest that developed and developing countries co-exist in a group and have the same multiplier value. Secondly, our empirical exercise has found time variant and time-invariant fiscal multipliers i.e., non-linearity is evident from our model, contingent on structural variable value. Lastly, we argue for country wise policy implications wherein countries could enhance their fiscal multiplier by observing the structural variable value during that time i.e, whether value exists in lower or upper regime and how approachable that variable is for that economy. This will build fiscal austerity and fiscal measures will be more prudent. Economies can target a particular fiscal determinant which will give maximum boost to the fiscal multiplier and thus, economies can optimise on the spending levels by having an outcome oriented approach.

Keywords:

FISCAL MULTIPLIER, GOVERNMENT SPENDING, STRUCTURAL FACTORS, THRESHOLD MODEL, DEVELOPED, DEVELOPING, NON-LINEAR, LATENT GROUPS, FISCAL AUSTERITY.