

THE FISCAL RESPONSIVENESS TO ECONOMIC FLUCTUATIONS

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ABSTRACT

In this paper I investigate the pattern of the fiscal responsiveness with economic development and the determinants of the fiscal responsiveness for 79 central governments during 1972 ~ 2007. For the analysis, I estimate the dynamic panel regression, the country-by-country regression and cross sectional regression by using the gap variables of the fiscal outcomes and GDPs.

First, this study finds that as the economy develops it is more stabilized and the fiscal outcomes become less volatile. Second, the fiscal responsiveness of revenue and tax becomes less pro cyclical with economic development. The change of the pattern of the fiscal responsiveness appears to be stronger in the case of expense. The High-Income group has a counter cyclicity in expense. In case of cash surplus/deficit, the responsiveness becomes more pro cyclical with economic development. Third, the fiscal responsiveness shows different cyclicity depending on the economic situation. In addition, the Low-Income group responds more sensitively in the bad situations while the High-Income group shows more sensitive responsiveness in the good situation. Fourth, the more effective governments show more counter cyclicity in total expense and most expense components while they show more pro cyclicity in revenue and surplus/deficit.