

THE EFFECTIVENESS OF FISCAL POLICY PROXIES ON ECONOMIC GROWTH IN IRAQ 1980-2015

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ABSTRACT

Fiscal policy is very effective tool at the disposal of the economic planner and decision maker to be utilized to affect the level of economic activity. This tool becomes even more important in the developing countries. The large sizes of the government and its great influence in the economic activity make this tool very effective to control the public spending, and then the level of economic growth.

The Economic literature on theoretical and empirical aspects assume that government recurrent expenditure affects the rate of economic growth adversely. While Capital government expenditure positively contributes to the economic growth.

We applied then do genous theory of growth to analyze the effect of public spending variables on economic development. We test our annual data from 1980-2015 of non-stationary status. We found that at a level all our variables are not stationary, but would be stationary if we take the first difference. Johnson Co-integration test confirmed the status of long run relations among the model variables. VECM method applied to estimate the model. The model estimation results show that government capital spending has a considerable influence on the growth rate in the long and short run and highly significant. While Government recurrent expenditure has a negative effect, and its coefficient was highly significant. Population elasticity was positive which reflect the development of human capital. Dummy variable used to capture the effect of stability was positive and significant.

We concluded that reducing government capital expenditure as the current government doing now, in order to reduce the budget deficit and revenue shortages resulted from low oil prices, will hinder the economic development and will affect the rate of growth negatively.

KEYWORDS: Fiscal Policy and Economic Growth