

**Paper prepared for the**  
***EY International Congress on Economics II***  
**"GROWTH, INEQUALITY AND POVERTY"**  
**Ankara, November 5-6, 2015**



**EKONOMİK YAKLAŞIM**  
Quarterly Peer-Reviewed Scientific Journal  
Department of Economics - Gazi University

## **Do Institutions Shape Fiscal Policy? Panel Evidence**

Saima Nawaz<sup>1</sup> and Idrees Khawaja<sup>2</sup>

1 COMSATS Institute of Information Technology/ Department of Management Sciences,  
Islamabad, Pakistan

2 Pakistan Institute of Development Economics/Department of Economics, Islamabad, Pakistan

[Saima.nawaz@comsats.edu.pk](mailto:Saima.nawaz@comsats.edu.pk)

## **Do Institutions Shape Fiscal Policy? Panel Evidence**

Saima Nawaz and Idrees Khawaja

### *Abstract*

*This study investigates the impact of institutions on government size using panel data for 56 countries over the period 1981-2010. The results show that institutions put constraints on aggregate spending in both developed and developing regions. However, the role of institutions varies with the level of development, the impact of most institutions on government spending being greater in the developed countries. The analysis further demonstrates that government stability and rule of law are relatively more effective at higher level of income while control over corruption is more important at low level of income. The implication is that developing nations should first focus on controlling corruption. Control over corruption will furnish the base environment required to benefit more from improvement in other institutions.*

*Keywords: Institutions, Fiscal Policy, Panel Data, Level of Development.*

*JEL classification: H30, E02, C33*