Keynesian Economics

vs.

Regular Economics

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Food stamps and other transfers aren’t necessarily bad ideas, but there’s no evidence they spur growth.
• Agriculture Secretary said recently that food stamps were an “economic stimulus" and that "every dollar of benefits generates $1.84 in the economy in terms of economic activity.”

• What few know is that there is no meaningful theoretical or empirical support for the Keynesian position.
• Regular economics prediction: An expansion of transfers, such as food stamps, decreases employment and, hence, gross domestic product (GDP).

• The central ideas involve incentives as the drivers of economic activity.

• Additional transfers to people ... motivate less work effort by reducing the reward from working.
More taxes

- The financing of a transfer program requires more tax—today or in the future in the case of deficit financing
- **Deficit financing**: finance transfer by borrowing
- These added levies likely further reduce work effort
• Food stamps and other transfers are not necessarily bad ideas
• But there is a trade-off: Greater provision of social insurance and redistribution of income reduces the overall GDP pie.
Keynesian economics

- Keynesian economics argues that recipients of food stamps use their transfers to consume more
- The administration believes that the cumulative effect is a multiplier around two
- Government can improve things just by borrowing money and giving it to people?
- How can this be right?
The market failure

• Where was the market failure that allowed the government to improve things just by borrowing money and giving it to people?

• Keynes (1936) was not so good at explaining why this worked, and subsequent generations of Keynesian economists (including my own youthful efforts) have not been more successful.
Evidence

• There is zero evidence that deficit-financed transfers raise GDP and employment—not to mention evidence for a multiplier of two.