

# Stimulus Spending Keeps Failing

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## Larger fiscal deficits

- The weak economic recovery in the U.S. and the even weaker performance in much of Europe have renewed calls for ending budget austerity and returning to larger fiscal deficits.
- This plea for more fiscal expansion fails to offer any proof that OECD countries that chose more budget stimulus have performed better than those that opted for more austerity.

## Germany and Sweden

- Two interesting European cases are Germany and Sweden, each of which moved toward rough budget balance between 2009 and 2011 while sustaining comparatively strong growth
- If austerity (財政緊縮) is so terrible, how come these two countries have done so well?

## Greece and Portugal

- The median of fiscal deficits for these six OECD countries for 2010 and 2011 was 7.9% of GDP.
- Of course, part of this pattern reflects a positive effect of weak economic growth on deficits, rather than the reverse.
- But there is nothing in the OECD data since 2009 that supports the Keynesian view that fiscal expansion has promoted economic growth.

- Every time heightened fiscal deficits fail to produce desirable outcomes, the policy advice is to choose still larger deficits.
- If, as I believe to be true, fiscal deficits have only a short-run expansionary impact on growth and then become negative, the results from following this policy advice are persistently low economic growth and an exploding ratio of public debt to GDP.
- Japan over the past two decades.

## Lack of evidence

- Despite the lack of evidence, it is remarkable how much allegiance the Keynesian approach receives from policy makers and economists.
- I think it's because the Keynesian model addresses important macroeconomic policy issues and is pedagogically beautiful, no doubt reflecting the genius of Keynes.

# Great Recession

- Keynes worshipers' faith in this model has actually been strengthened by the **Great Recession** and the associated financial crisis.
- Yet the empirical support for all this is astonishingly thin.

## Looking forward

- Looking forward, there is a lot to say on economic grounds for strengthening fiscal austerity in OECD countries.
- From a political perspective, however, the movement toward austerity may be difficult to sustain in some countries, notably in France and Greece where leftists and other anti-austerity groups just won elections.



## On the plus side

- The differing policies will provide better data to analyze the economic consequences of austerity.