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.
• 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.