

Repeat

By [Jérôme Creel](#)

In a beautiful book for children, every two pages [Claude Ponti](#) drew two chicks, one of which says to the other: “Pete and Repeat are in a boat. Pete falls overboard. Who is left?” Then the other chick says, “Repeat”, and off we go again. At the end of the book, the second chick, its eyes bulging, screams: “Repeat!” And it never stops. It’s a bit like these analyses of economic growth and fiscal contractions where almost every month it is rediscovered that the ongoing fiscal contractions are reducing economic growth or that underestimating the real impact of fiscal policy is leading to forecast errors.

Recently, and after having authored a box in the *2013 World Economic Outlook* in October 2012, Daniel Leigh and Olivier Blanchard of the IMF published a [working document](#) that confirms that the IMF’s recent forecasting errors are due to erroneous assumptions about the multiplier effect. Because this effect was underestimated, especially at the bottom of the economic cycle, the IMF forecasters, though they are not alone (see in particular the note by [Bruno Ducoudré](#)), underestimated growth forecasts: they had not anticipated that what was required by the austerity measures and their implementation would have such a negative impact on consumer spending and business investment. The attempt to reduce state debt was taking place during a period when households and businesses were also deleveraging, meaning that it would be difficult to avoid falling into the trap of recession.

Since it must be repeated, let’s repeat! “Expansionary-fiscal-contractions and Repeat are in a boat. Expansionary-fiscal-contractions falls overboard. Who is left in the boat? Repeat!” In support of this short story, it is worth referring to a literature review conducted by [Eric Hoyer](#): he shows the extent of the consensus that actually exists on the value of

the fiscal multipliers, a consensus that has emerged since 2009, *i.e.* in the midst of a recession and at the very time that recommendations for austerity measures began to emerge. A note by [Xavier Timbeau](#) shows that the analysis of current fiscal cutbacks supports an assessment that the value of the fiscal multiplier is much higher in a crisis than in normal times ... What paradoxes!

What is to be done now? Repeat, yet again, that recession may not be inevitable: as [Marion Cochard, Bruno Ducoudré and Danielle Schweisguth](#) pointed out in a supplement to the [2013 iAGS report](#), it is urgent to temper existing fiscal austerity measures in the euro zone: European growth but also actual fiscal consolidation would improve at last.