

Fiscal policy honoured

By [Jérôme Creel](#)

“The size of many multipliers is large, particularly for spending and targeted transfers.” Who today would dare to write such a thing?

The answer is: 17 economists from the European Central Bank, the US Federal Reserve, the Bank of Canada, the European Commission, the International Monetary Fund, and the Organization for Economic Cooperation and Development, in an article published in January 2012 in the [American Economic Journal: Macroeconomics](#).

They continue in the abstract: “Fiscal policy is most effective if it has moderate persistence and if monetary policy is accommodative. Permanently higher spending or deficits imply significantly lower initial multipliers.”

What are the values of these multiplier effects, and what about the significant reduction in such effects if fiscal policy is expansionary over the long term? According to these 17 economists, based on eight different macroeconomic models for the US and four different models for the euro zone, the conclusion is clear: a fiscal stimulus that is in effect for 2 years, accompanied by an accommodative monetary policy (the interest rate is kept low by the central bank) produces multiplier effects that are well above one both in the United States and in the euro zone (between 1.12 and 1.59) if the stimulus plan targets public consumption, public investment or targeted transfers. For other instruments available to government, such as VAT, the effects are smaller, on the order of 0.6, but still decidedly positive.

What if the stimulus is continued? The multiplier effects of a permanent increase in public consumption dwindle, of course, but they remain positive in the euro zone, regardless of the

model used and regardless of the assumption made about the monetary policy pursued. Rare cases of negative multiplier effects are reported for the United States, but these depend on the model used or on assumptions about monetary policy.

Finally, a comment and a question raised by this recent article.

The comment: the choice of an optimal fiscal policy in the euro zone is well worth a few moments of reflection, reading and analysis of current work, rather than a truncated and distorted vision of fiscal policy that is judged without fair consideration as harmful to economic activity.

The question: an expansionary fiscal policy has ... expansionary effects on gross domestic product; must we really deprive ourselves of an instrument that is, after all, effective?