

## Fiscal multipliers and growth-balanced consolidation

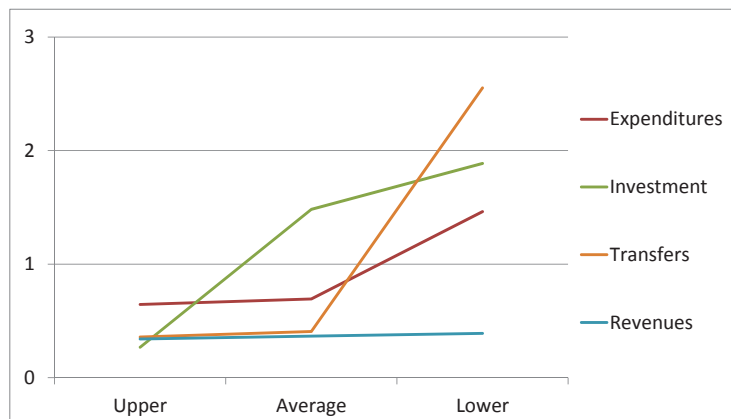
Sebastian Gechert

OeNB, September 2015

### Some points to address...

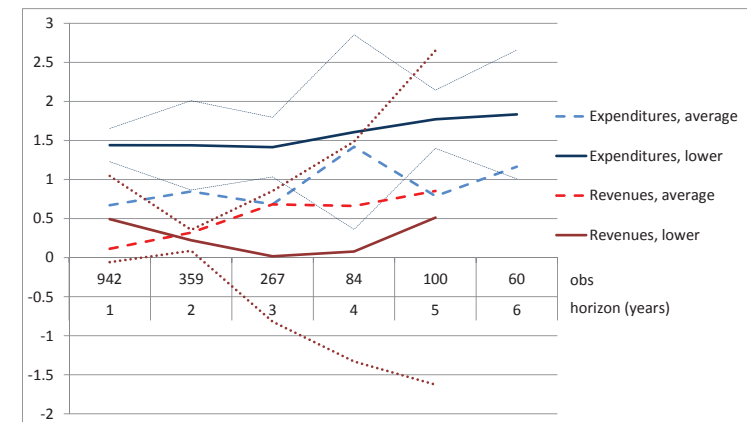
- Positive effects of discretionary fiscal stabilisation and automatic stabilisers  
→ Figures on Euro Area frontloaded consolidation
- Self-financing / self-defeating fiscal policy, multiplier uncertainty  
→ Some evidence on multipliers and consolidation effects
- Design of fiscal rules, composition of budget  
→ Impact of fiscal pressure on public investment

Figure 1 : Meta Regression: Regime dependent mean multipliers



Source: Gechert and Rannenberg (2014), estimation based on 98 papers, >1800 multiplier observations

Figure 2 : Cumulative multipliers against horizon of measurement



Source: Gechert and Rannenberg (2014)

Consolidation actions in the Euro Area -  
Cumulative revenue increases and expenditure cuts, % of 2010 GDP

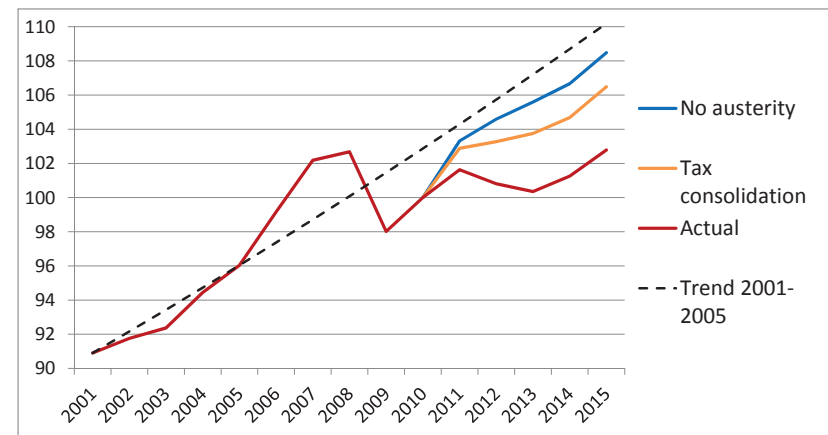
	2011	2012	2013	2014	2015
Total revenue	0.5	1.6	2.3	2.5	2.5
Total expenditure	0.7	1.3	1.8	1.8	2.0
<b>All measures</b>	<b>1.2</b>	<b>3.0</b>	<b>4.1</b>	<b>4.3</b>	<b>4.5</b>

Estimated cumulative GDP effect  
of Euro Area fiscal consolidation, % of 2010 GDP

	2011	2012	2013	2014	2015
Total revenue	-0.4	-1.3	-1.8	-2.0	-2.0
Total expenditure	-1.3	-2.5	-3.4	-3.4	-3.7
<b>All measures</b>	<b>-1.7</b>	<b>-3.8</b>	<b>-5.2</b>	<b>-5.4</b>	<b>-5.7</b>
<b>Δ primary balance due to consolidation</b>	<b>0.4</b>	<b>1.1</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>

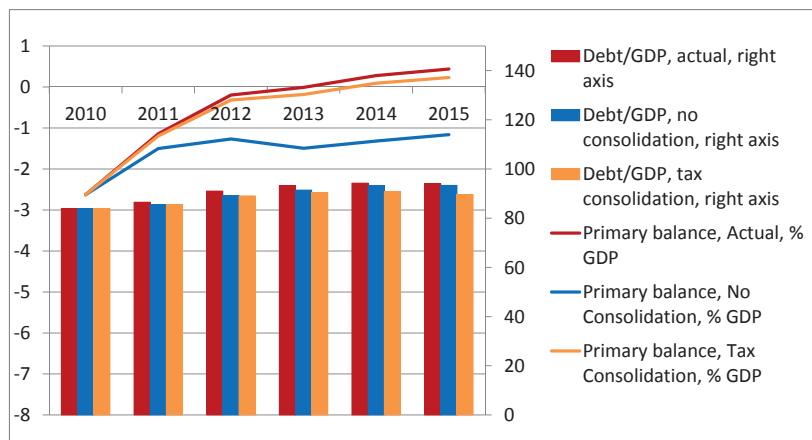
Source: AMECO, own calculations

Figure 3 : Euro Area real GDP under various scenarios, 2010=100



Source: Extension of Gechert et al. (2015)

Figure 4 : Primary balances and debt-to-GDP ratio, % of nom GDP



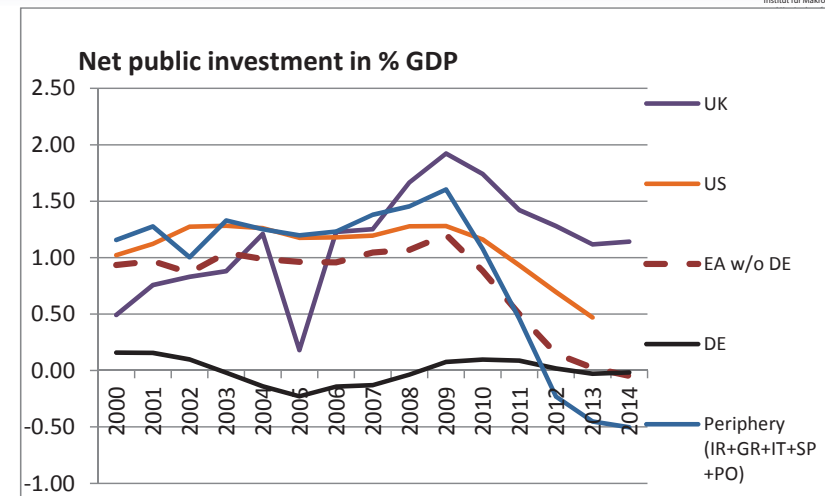
Source: Extension of Gechert et al. (2015)

Cost-Benefit Relation, % of GDP

	Actual	Tax-based	Backloading
$\Delta$ Primary Balance	1.7	1.5	2.5
$\Delta$ GDP	-5.7	-2.0	-4.1
Ratio	3.3 : 1	1.3 : 1	1.6 : 1

### Fiscal rules and composition of consolidation

- Public investment has very high multipliers also in average scenario
- Fiscal rules, even with cyclical adjustment, tend to have a procyclical bias (Bova et al., 2014)
- Politicians' easiest short-run solution to balance budget: cutting public investment
- Fiscal rules should include a golden rule



Source: AMECO

### Conclusions

- Procyclical consolidation extraordinarily harmful, in particular on the spending side → largely self-defeating.
- Much of Euro Area stagnation can be simply explained by frontloaded austerity.
- Credible postponement (backloading) possible and less costly → same primary balance improvement, only 50% of GDP loss.
- Fiscal Rules: shield public investment by golden rule.

Thank you very much!

### Contact

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Bova, E., Carcenac, Nathalie, and M. Guerguil (2014). Fiscal Rules and the Procyclicality of Fiscal Policy in the Developing World. IMF Working Paper WP/14/122.

Gechert, S., A. Hughes Hallett, and A. Rannenberg (2015). Fiscal multipliers in downturns and the effects of Eurozone consolidation. CEPR Policy Insight 79.

Gechert, S. and A. Rannenberg (2014). Are Fiscal Multipliers Regime-Dependent? A Meta Regression Analysis. IMK working paper 139.