



Department
of Economics



Department of Economics and Centre For Macroeconomics public lecture

Fiscal Policy During Recessions and Recoveries

Dr Ethan Ilzetzki

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Suggested hashtag for Twitter users: **#LSEecon**



Fiscal Policy

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Fiscal stimulus works...



“Textbook macroeconomics says [fiscal stimulus should] have been about three times as big as the stimulus we actually got, and would have been much more focused on spending rather than tax cuts. Would such a policy have worked? **All the evidence of the past five years says yes.**”

Paul Krugman, NYT Sep 5, 2013

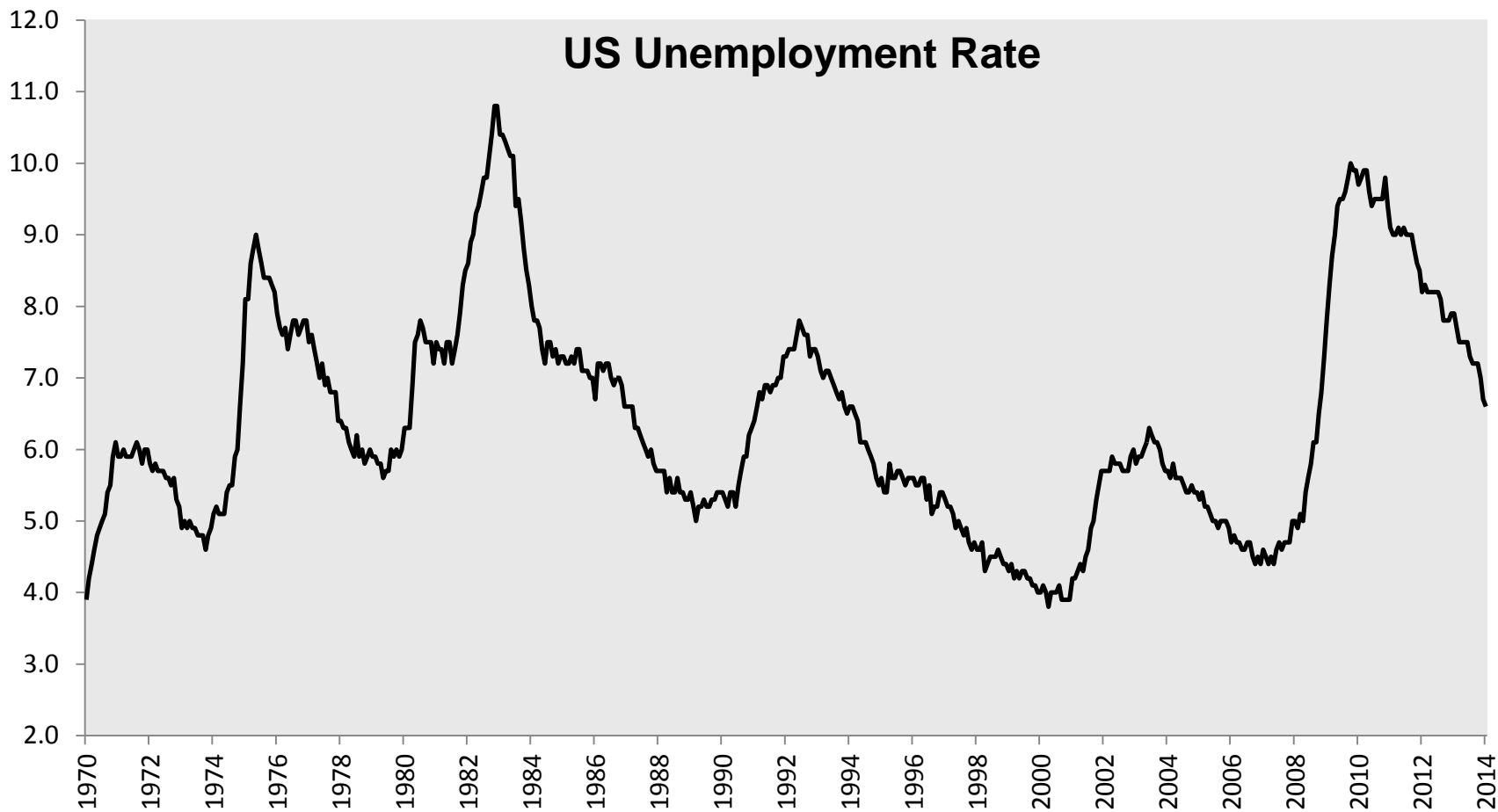
...or does it?



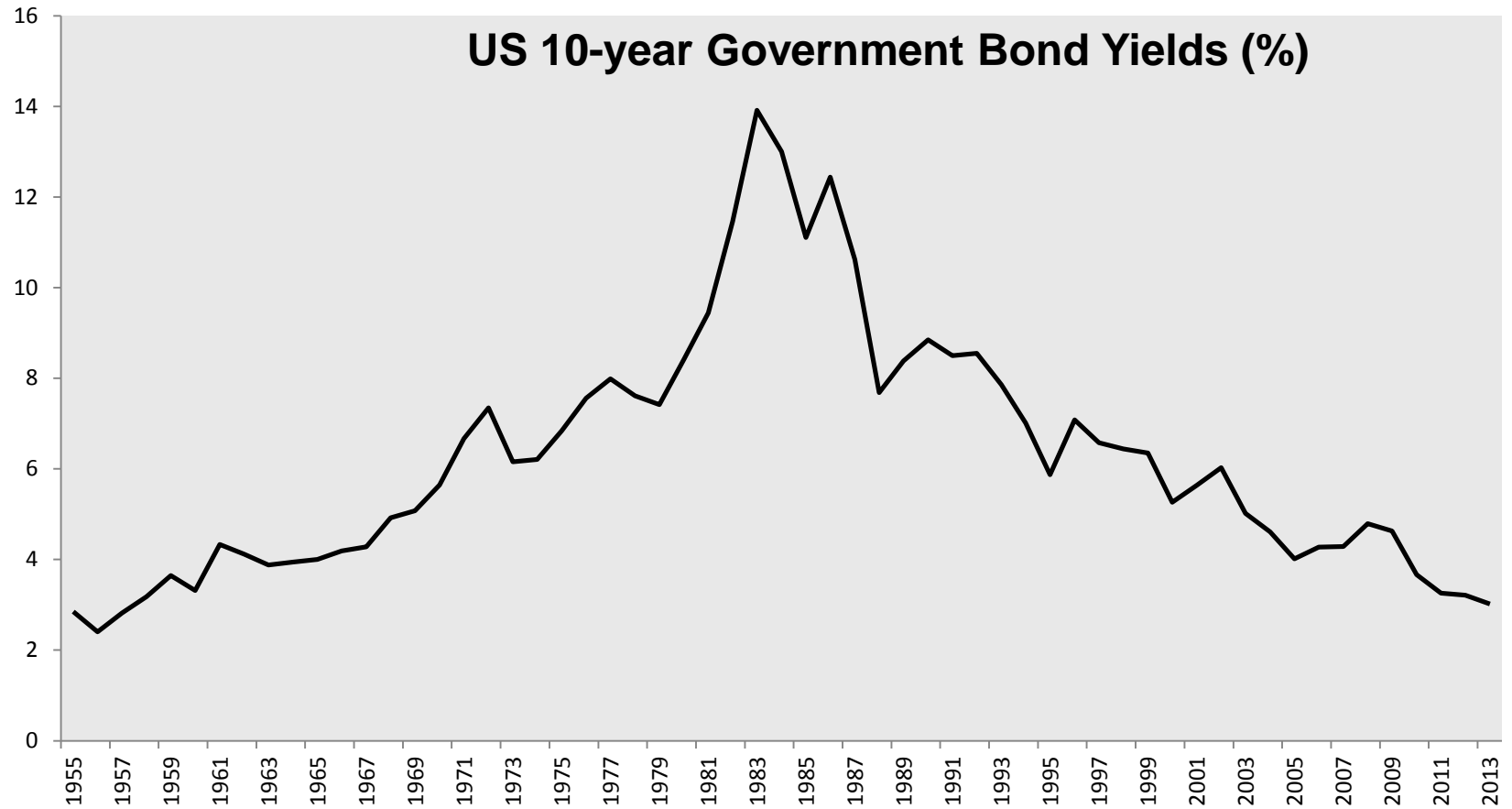
“Curiously, this plea for more fiscal expansion **fails to offer any proof** that ... countries that chose more budget stimulus have performed better than those that opted for more austerity.”

Robert Barro, WSJ May 9, 2012

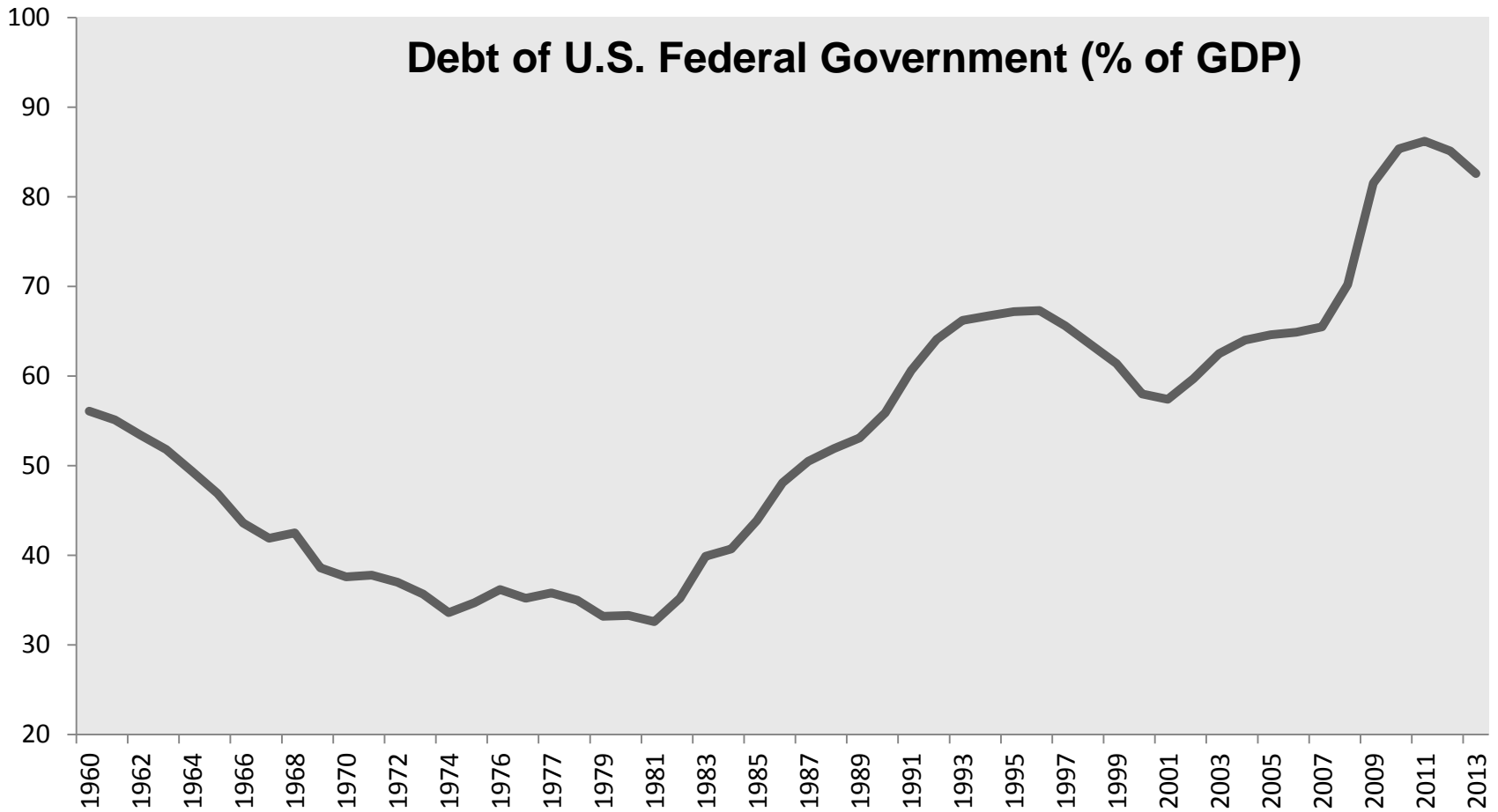
U.S. Unemployment Rate



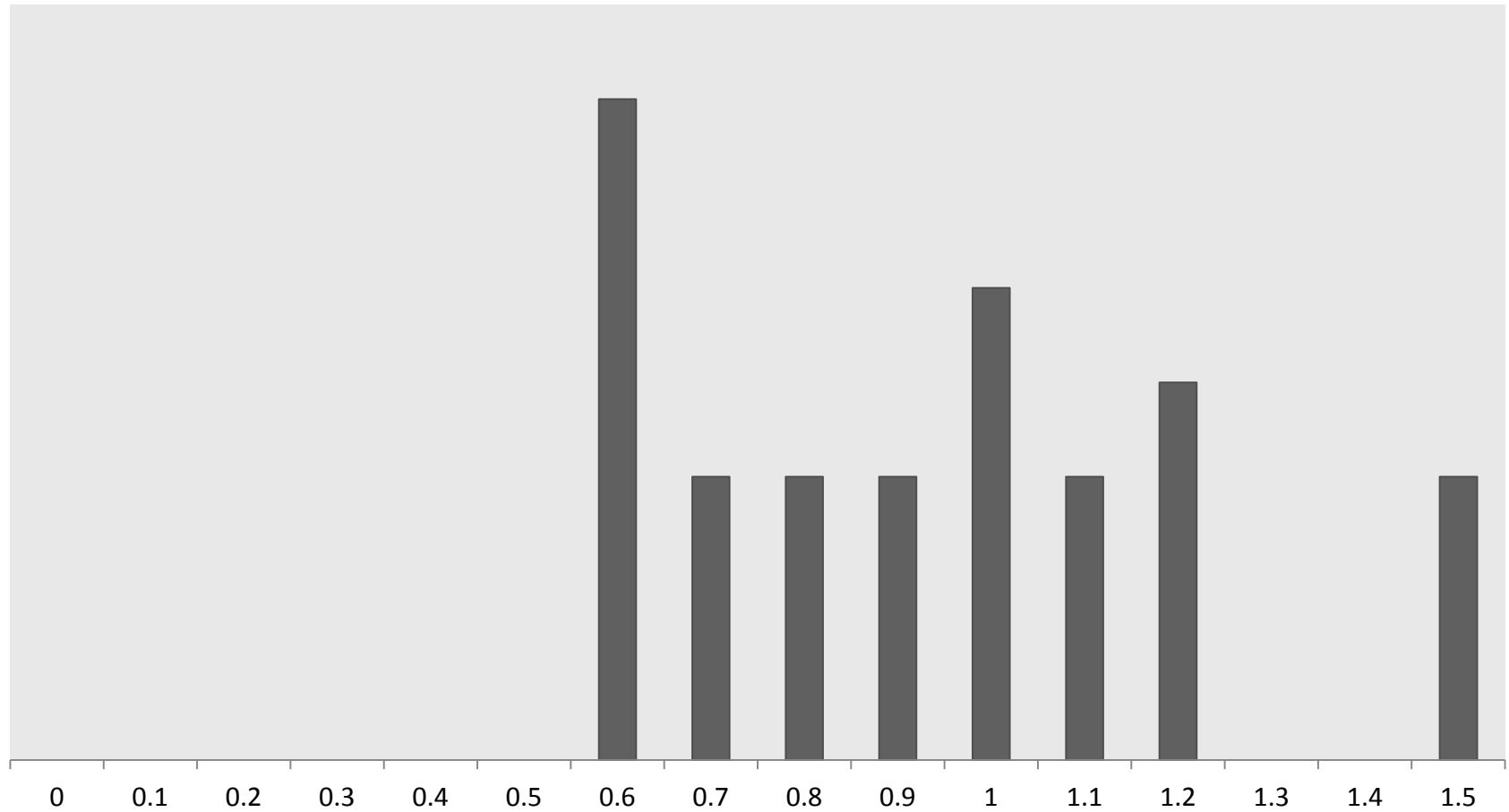
U.S. Borrowing Rates



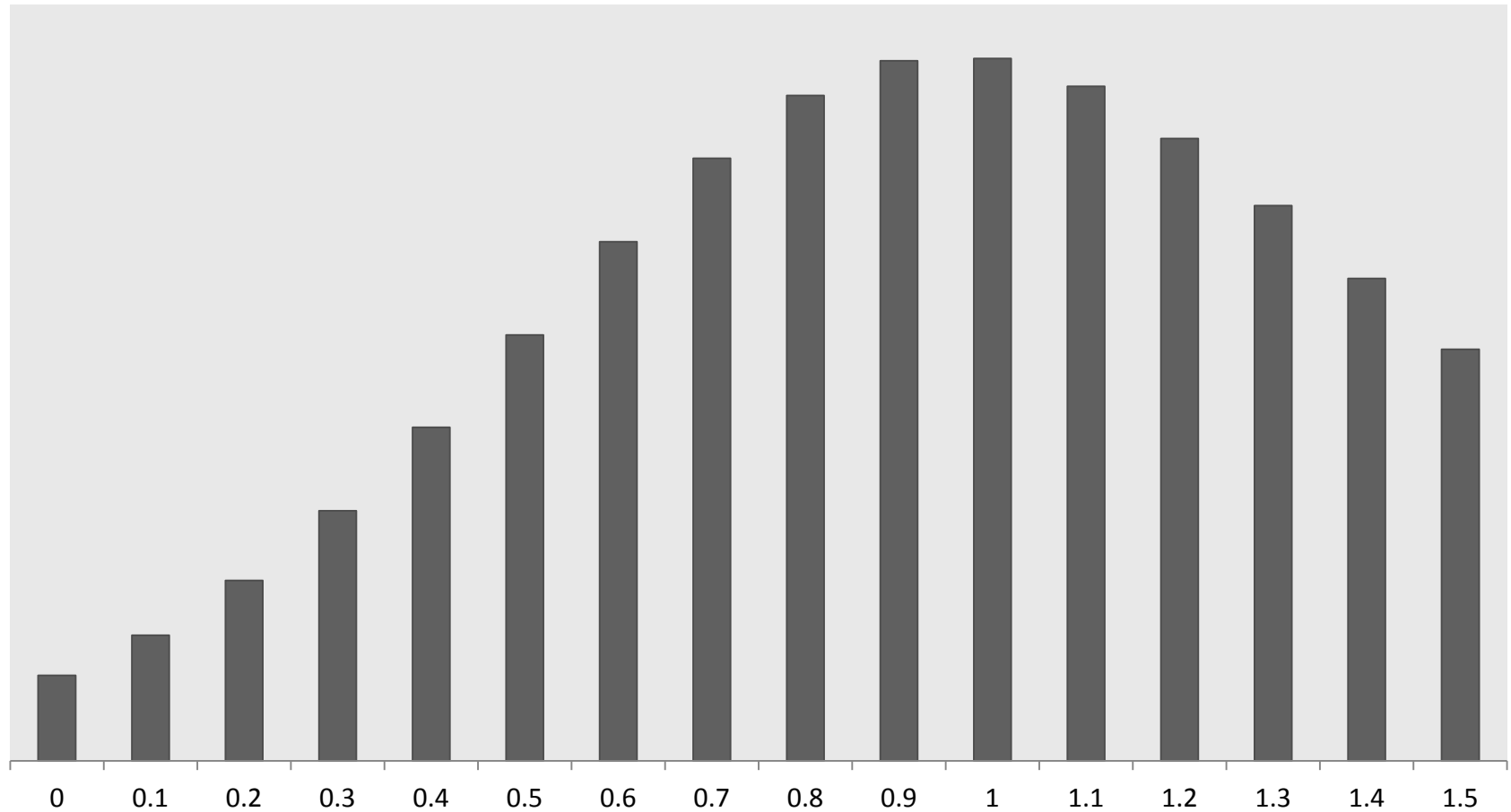
U.S. Public Debt



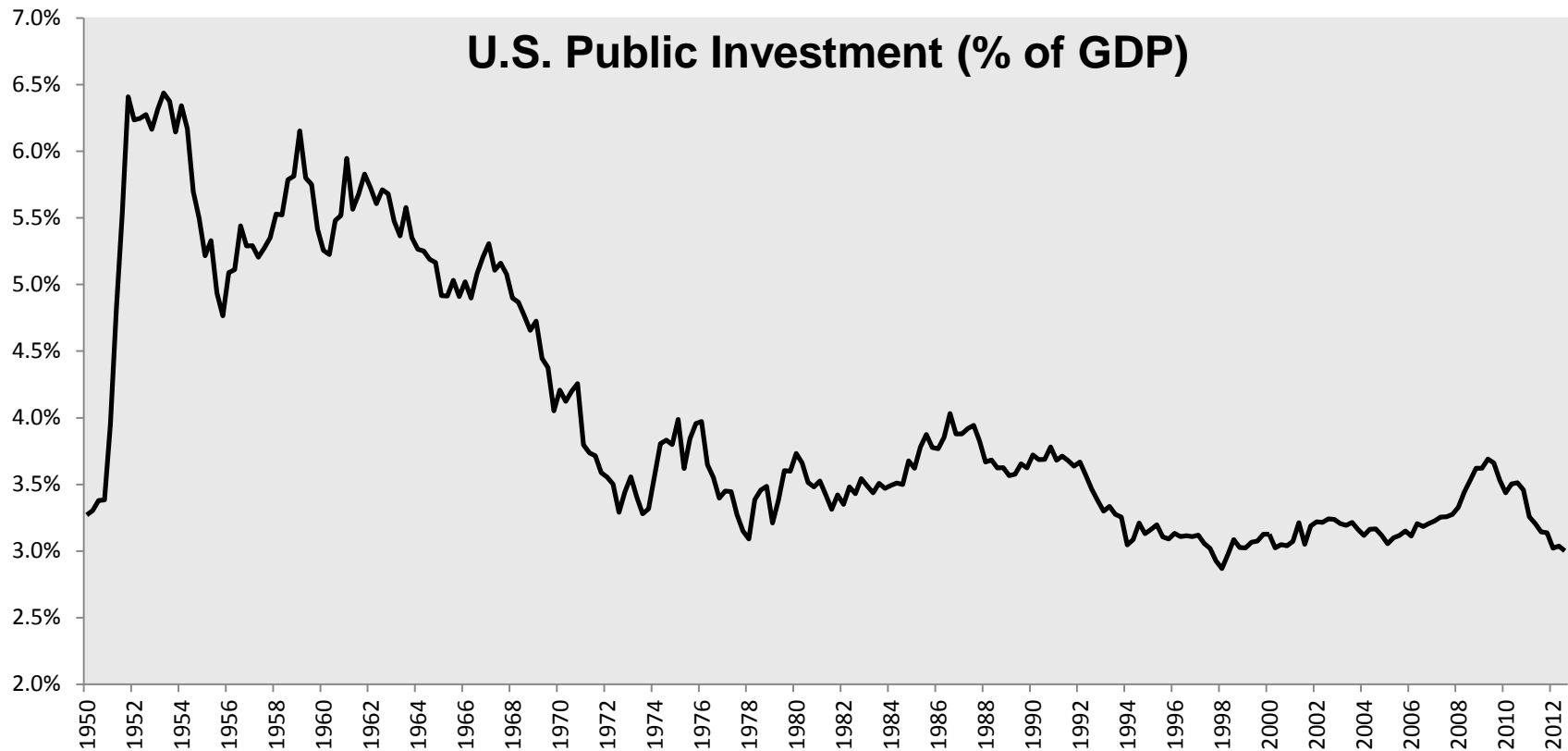
Range of Fiscal Multiplier Estimates Histogram Across Studies (Ramey, 2011)



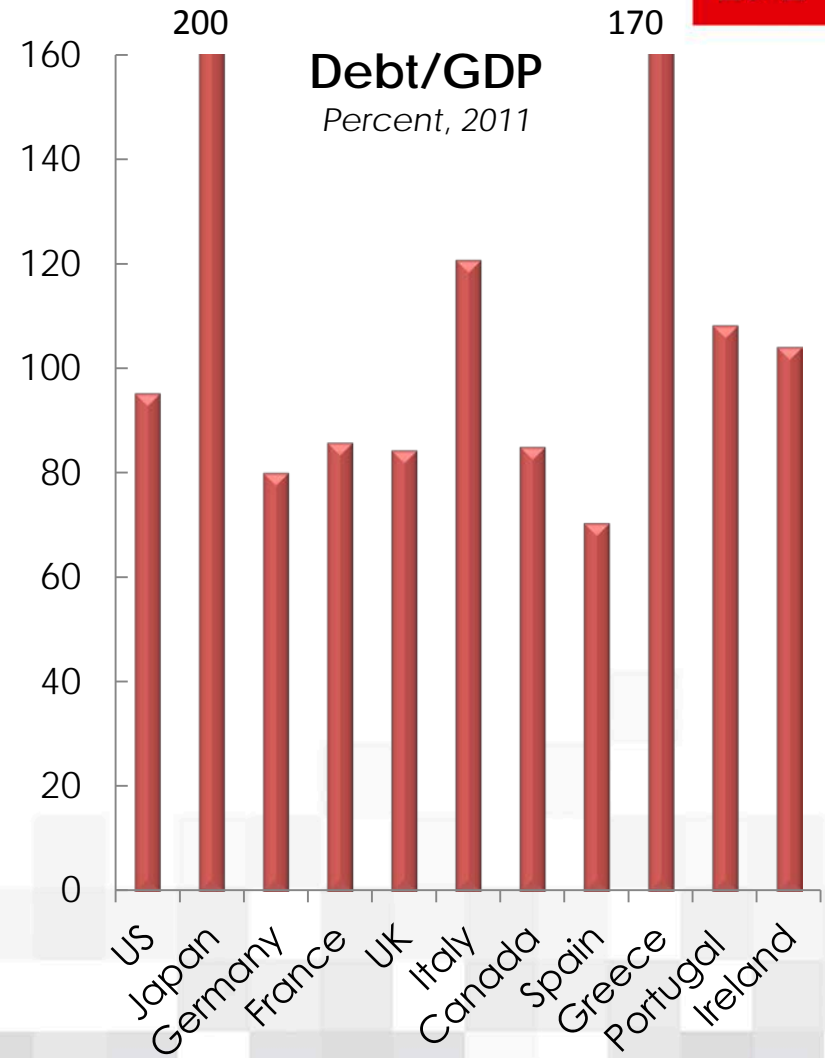
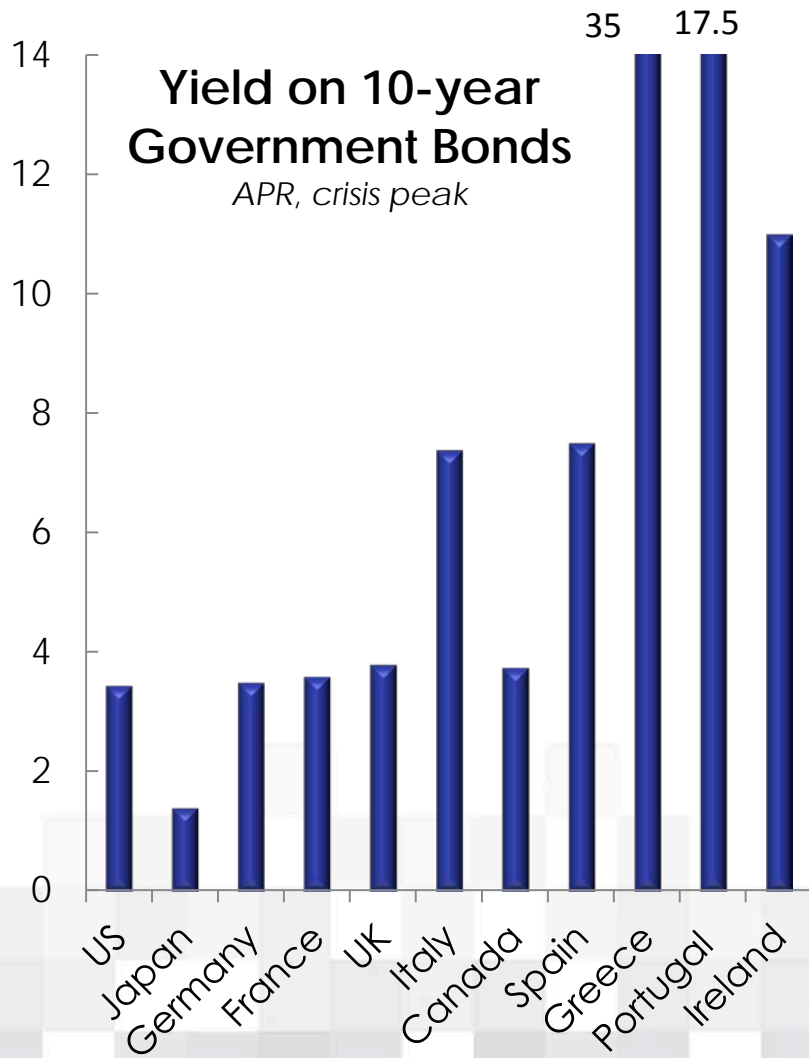
Range of Fiscal Multiplier Estimates *within* a Study (Blanchard, Perotti, 2002)



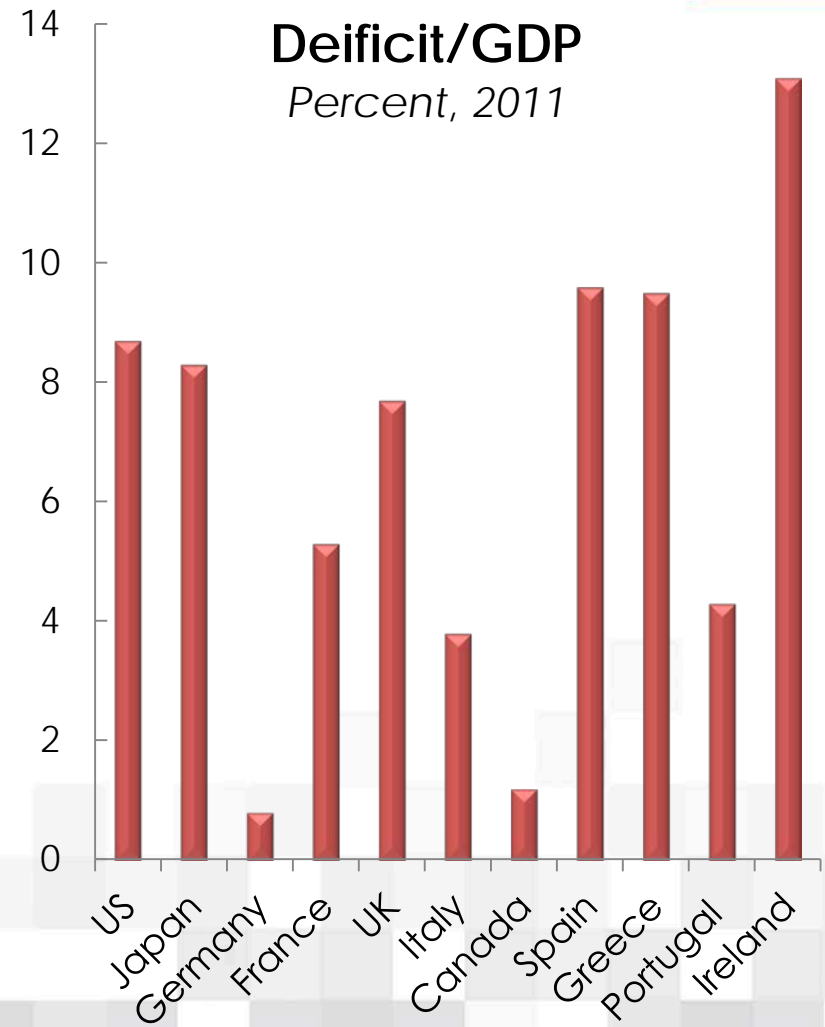
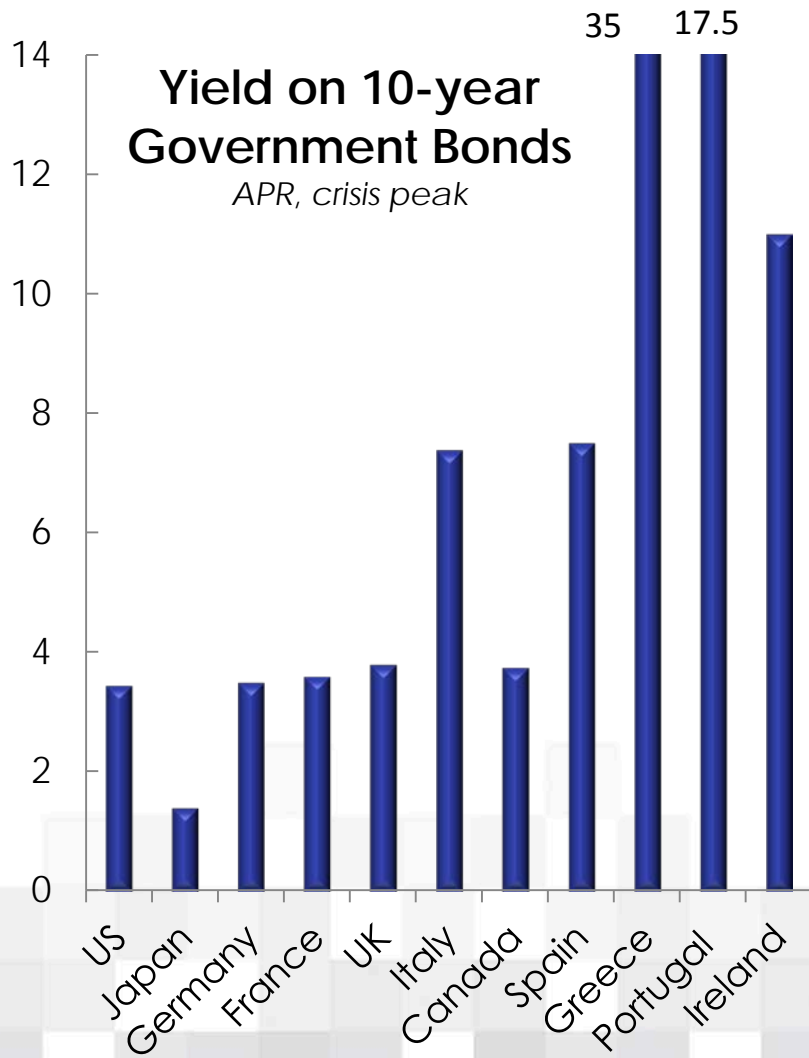
The Decline in U.S Public Investment



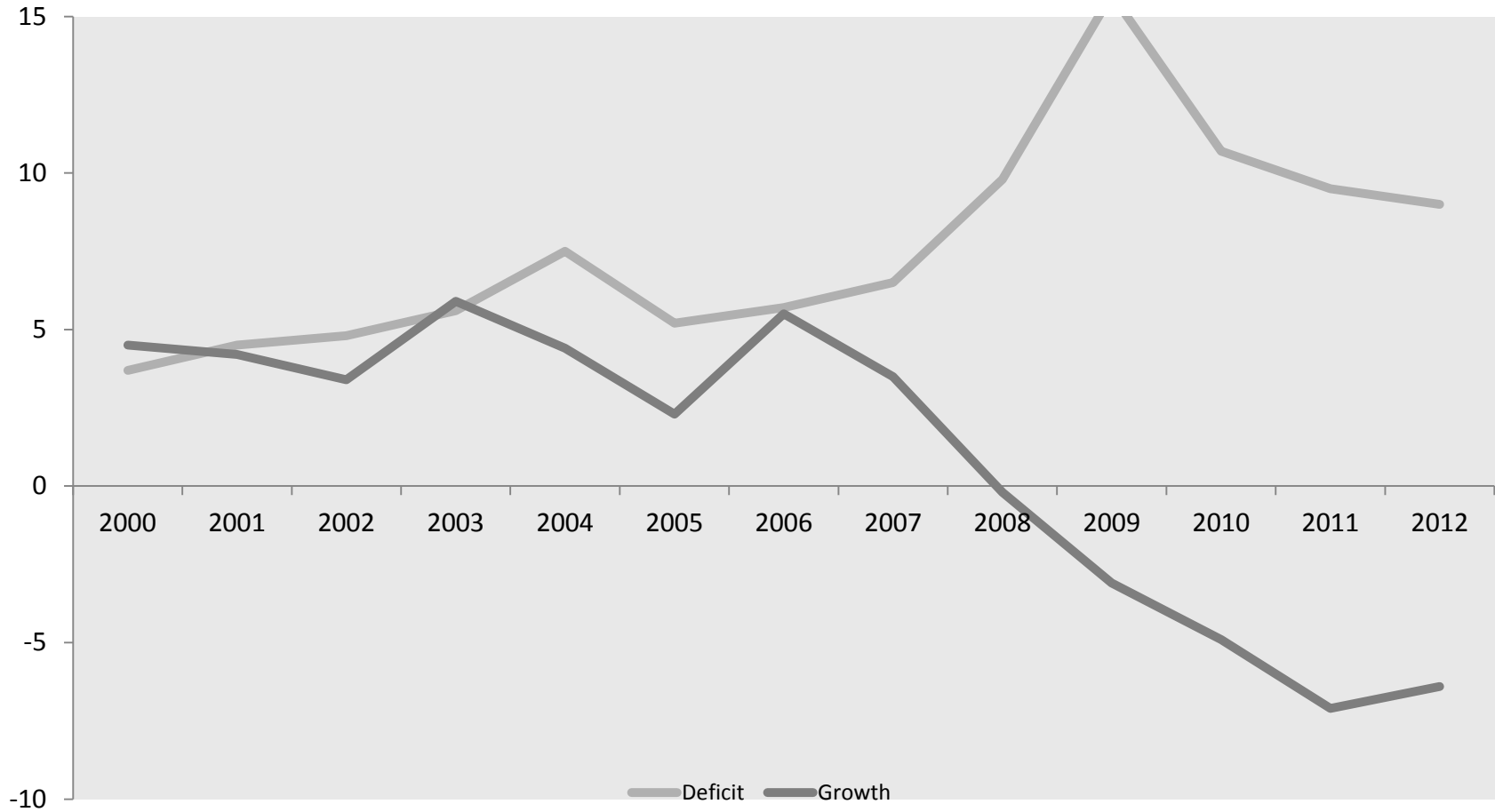
Debt and Yields



Deficit and Yields



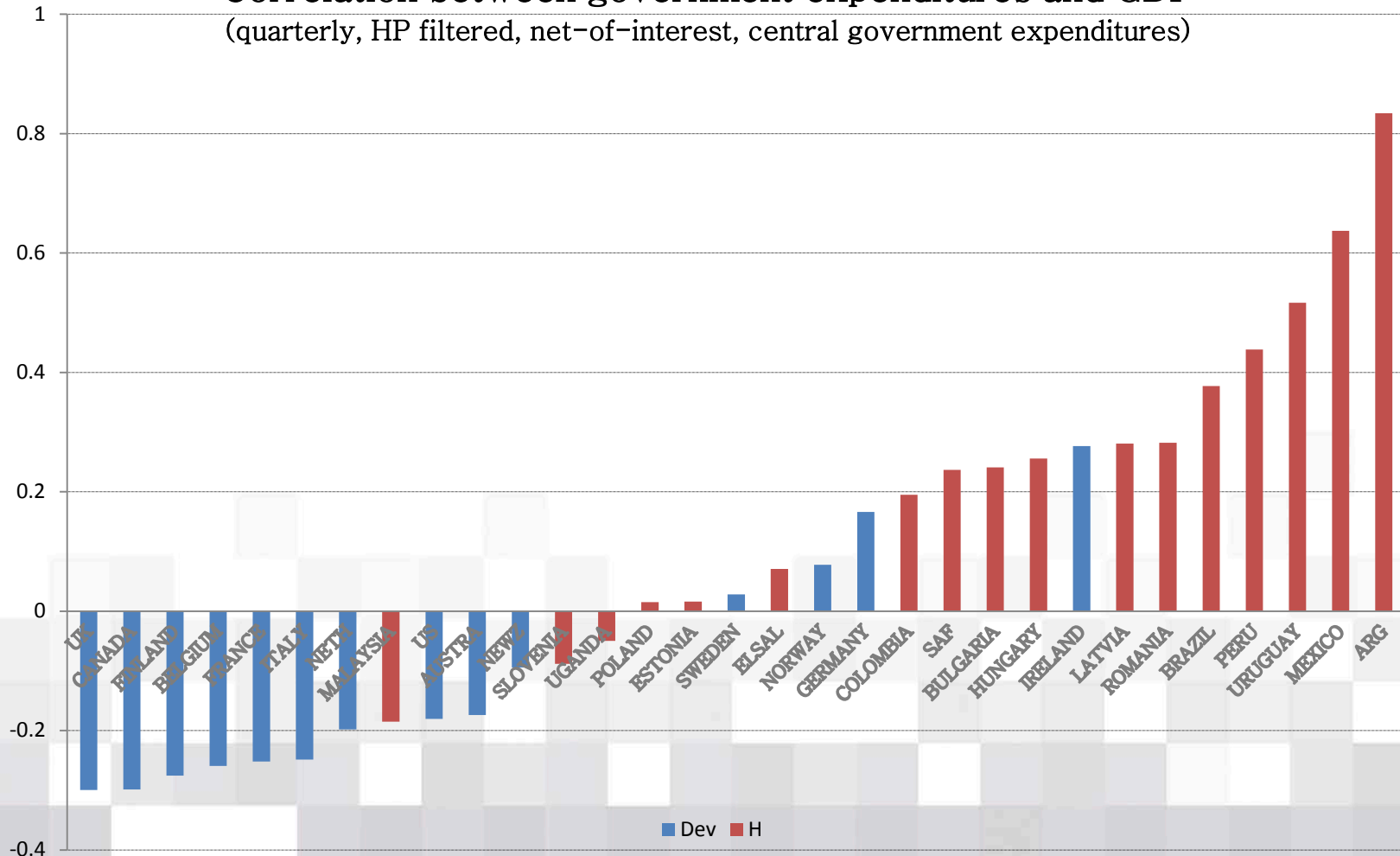
Greek GDP growth and Budget Surplus



Cyclicality of Fiscal Policy

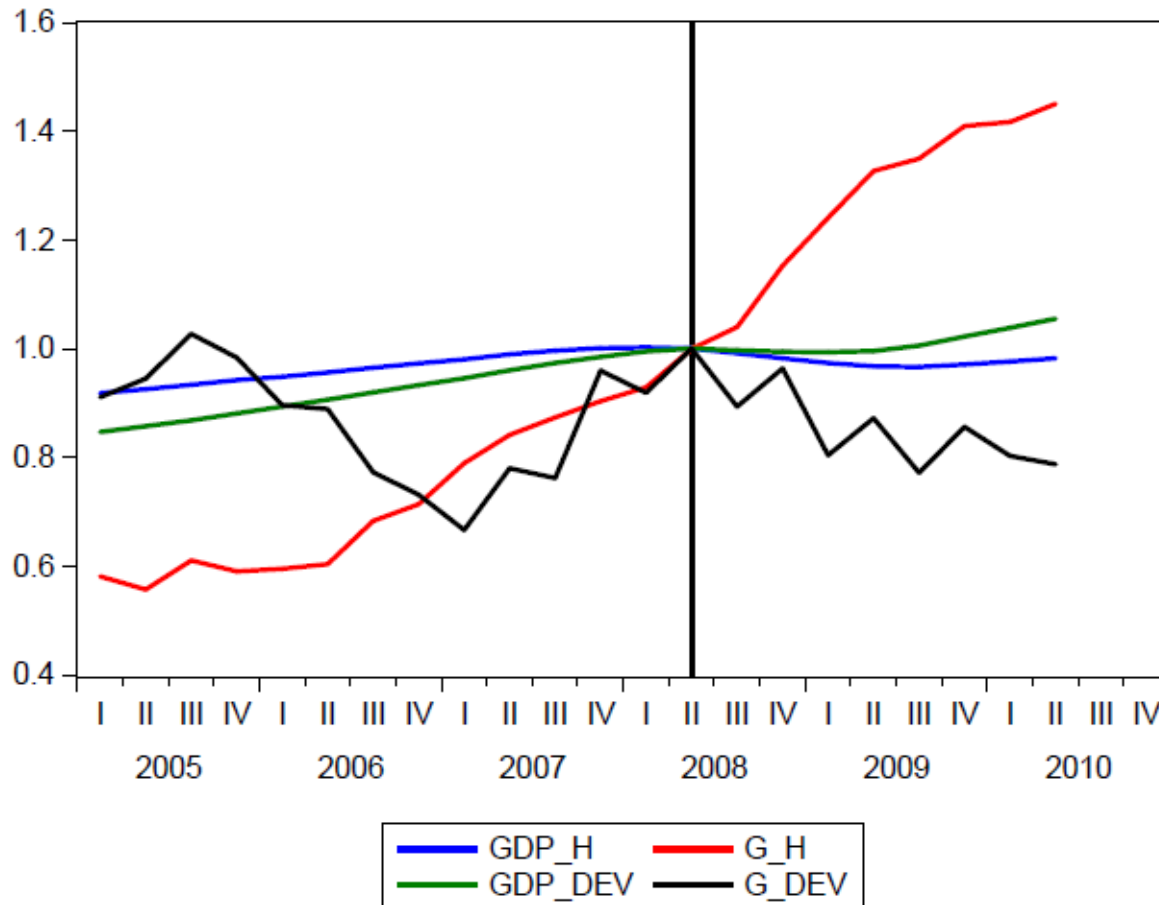


Correlation between government expenditures and GDP
(quarterly, HP filtered, net-of-interest, central government expenditures)



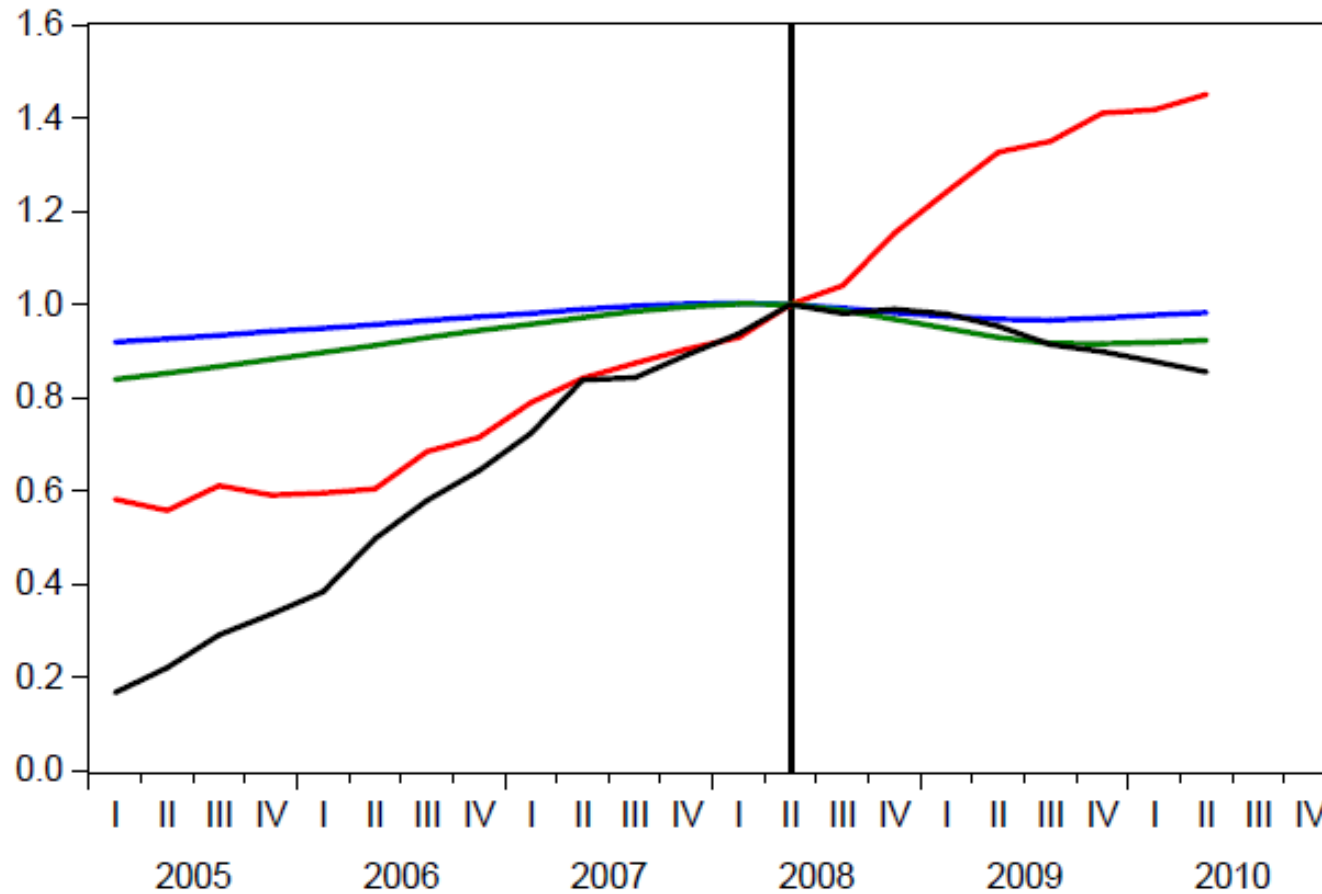
Fiscal Policy During the Crisis

High-income and Developing Economies

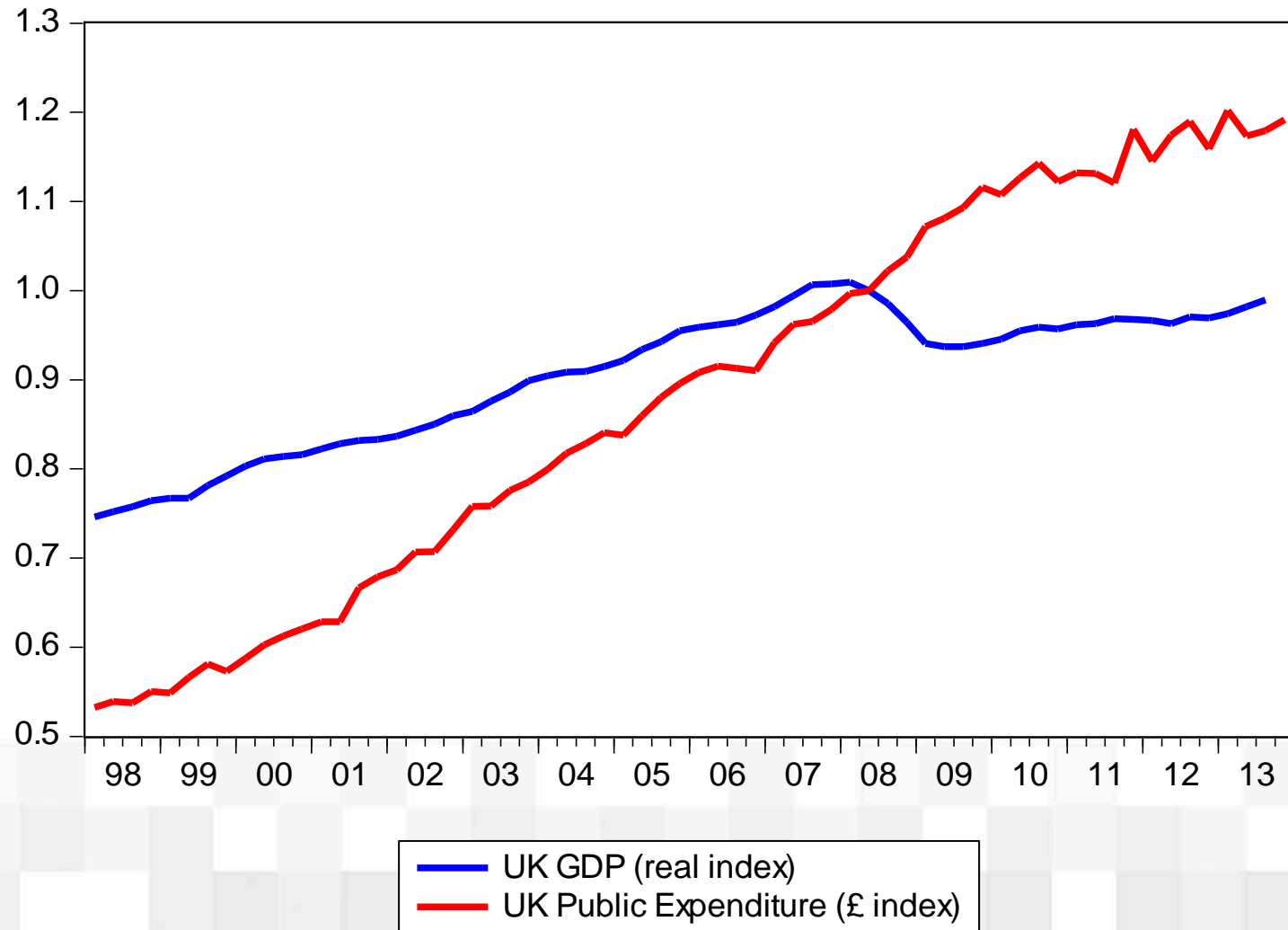


Fiscal Policy During the Crisis

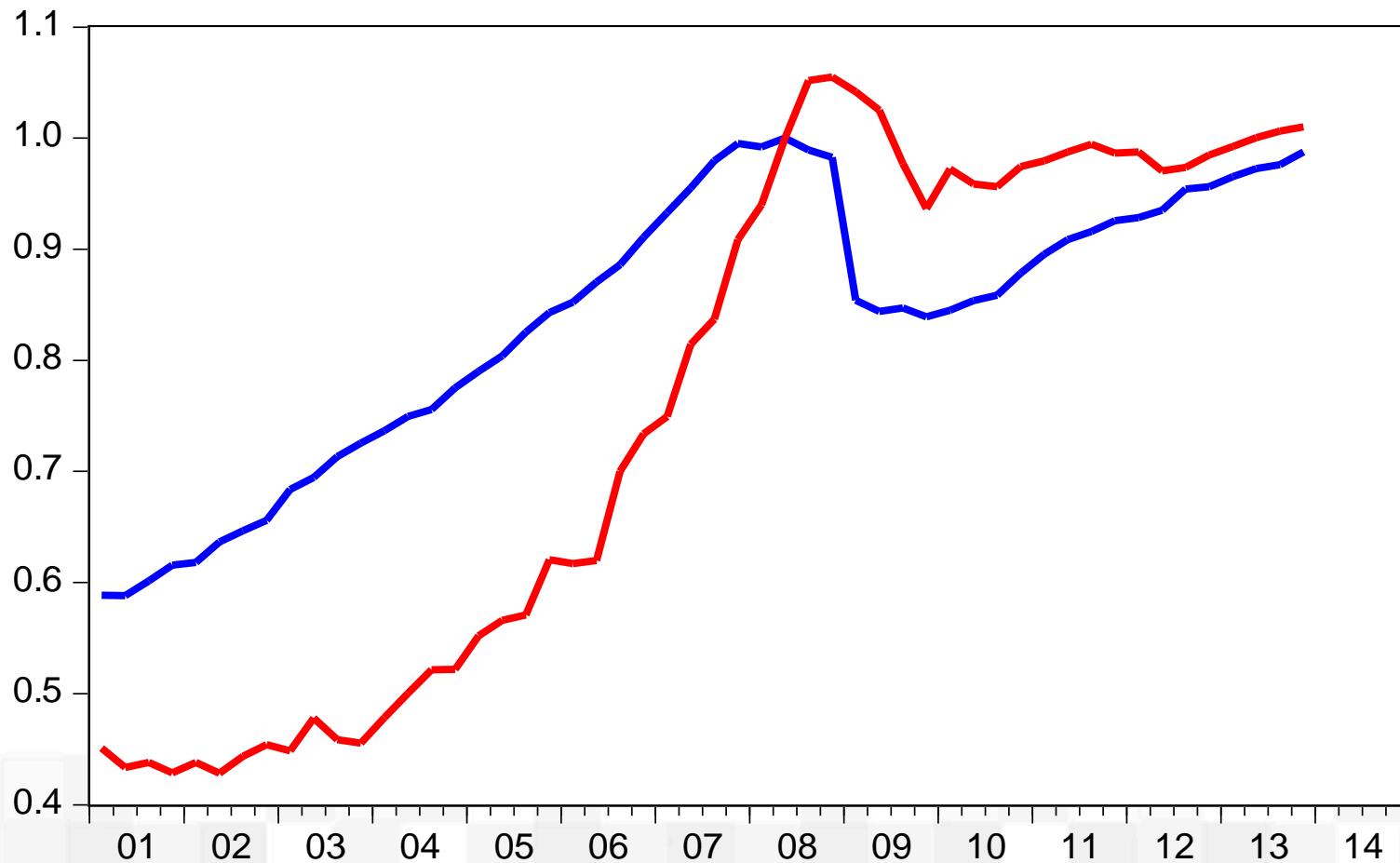
High-income and Transition Economies



Public Spending and GDP in the UK



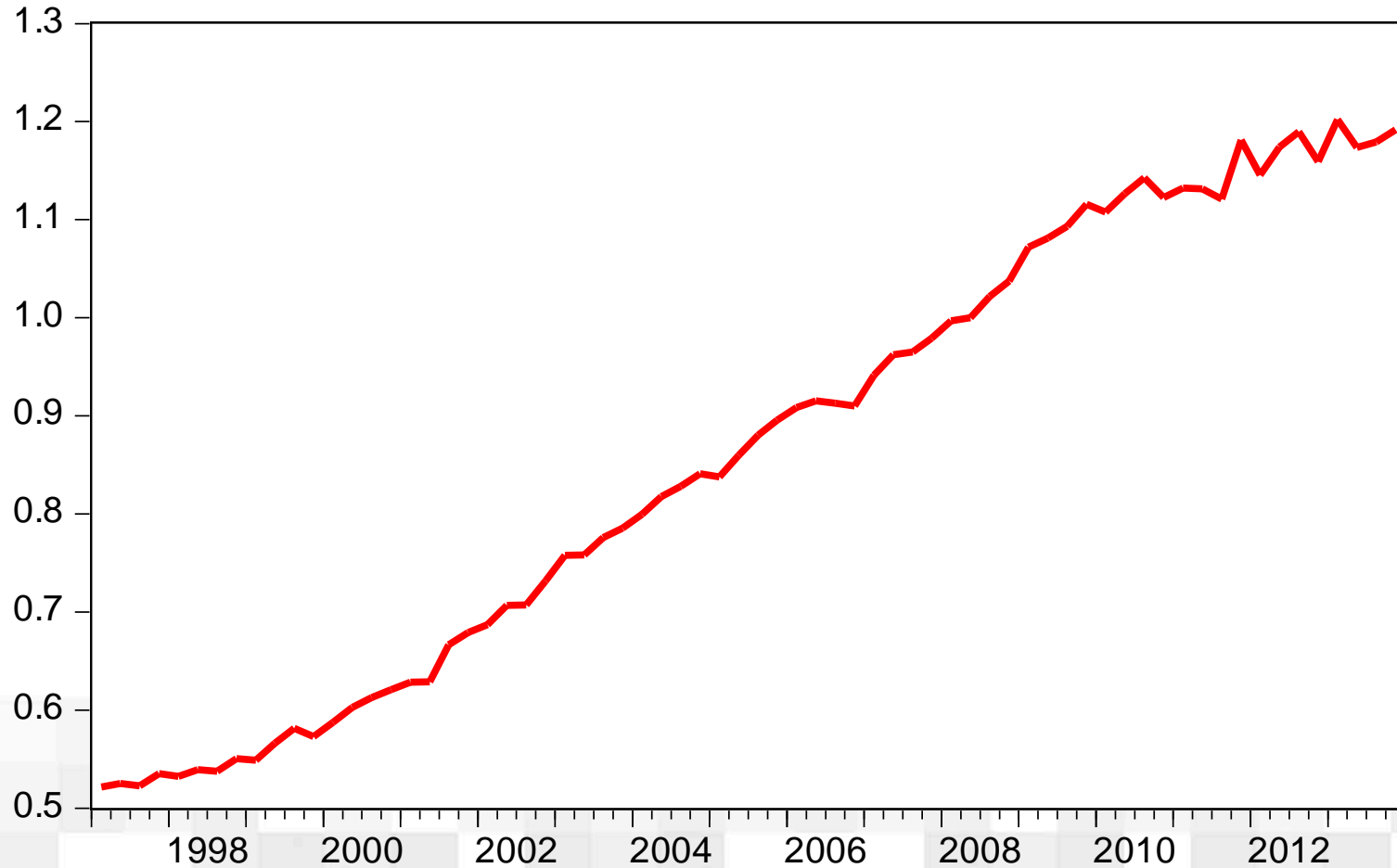
Public Spending and GDP in Lithuania



— Lithuania GDP (real index)
— Lithuania Public Expenditure (LTL index)

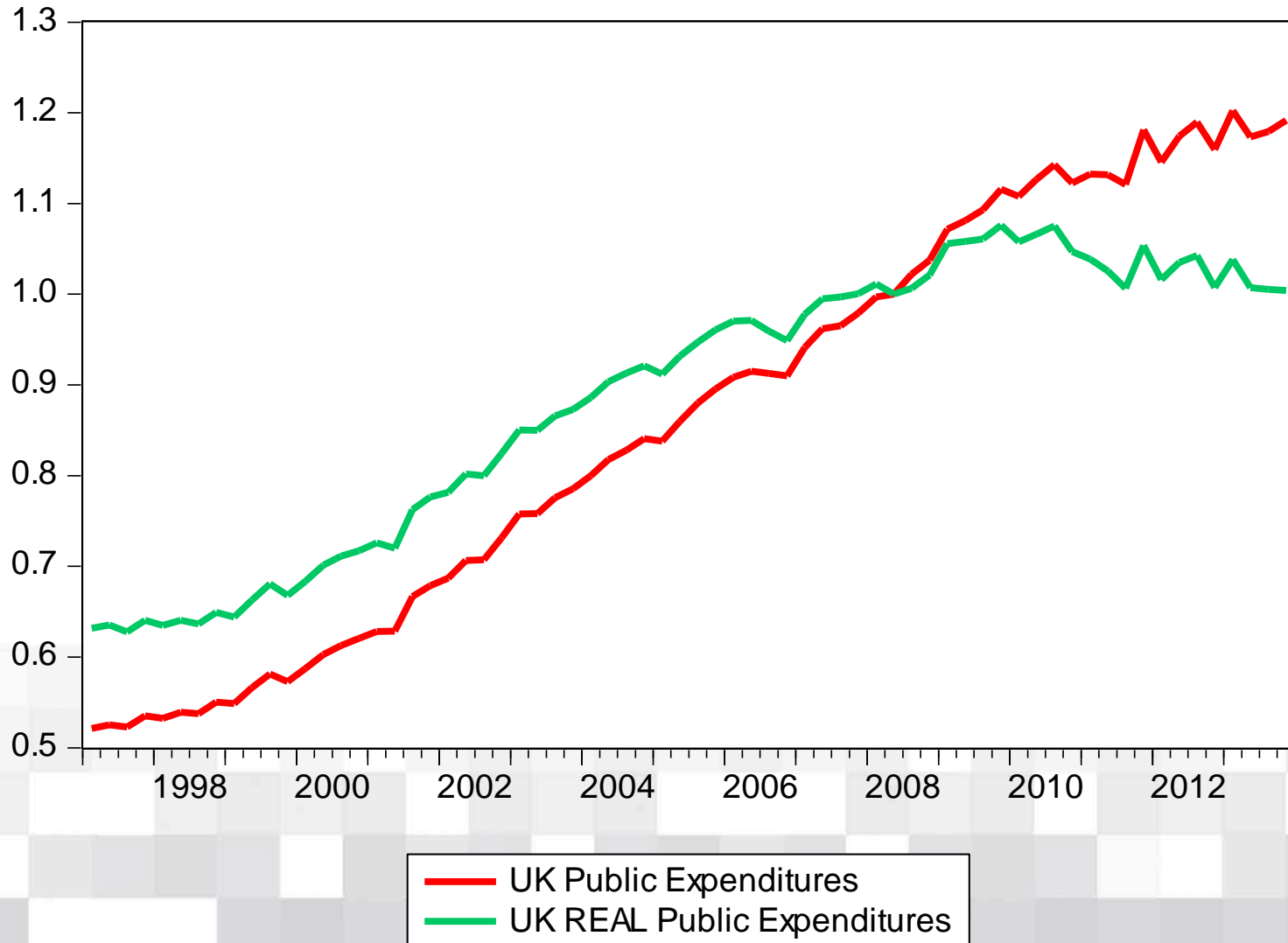
Public Spending in the UK

Nominal and Real



Public Spending in the UK

Nominal and Real



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