EXPANSIONARY AUSTERITY? INTERNATIONAL EVIDENCE

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Abstract
This paper investigates the short-term effects of fiscal consolidation on economic activity in OECD economies. We examine contemporaneous policy documents to identify changes in fiscal policy motivated by a desire to reduce the budget deficit and not by responding to prospective economic conditions. Using this new dataset, our estimates suggest fiscal consolidation has contractionary effects on private demand and GDP. By contrast, estimates based on conventional measures of the fiscal policy stance used in the literature support the expansionary fiscal contractions hypothesis but appear to be biased toward overstating expansionary effects. (JEL: E32, E62, H20, H5, N10)

The editor in charge of this paper was Fabio Canova.

Acknowledgments: The views expressed in this paper are those of the authors and do not necessarily represent those of the IMF or IMF policy. We are grateful to Olivier Blanchard, John Bluedorn, and David Romer, for valuable comments.

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