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Stimulus Spending Doesn't Work

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Our new research shows no evidence of a Keynesian 'multiplier' effect. There is evidence that tax cuts boost new growth.

The global recession and financial crisis have refocused attention on government stimulus packages. These packages typically emphasize spending, predicated on the view that the expenditure "multipliers" are greater than one—so that gross domestic product expands by more than government spending itself. Stimulus packages typically also feature tax reductions, designed partly to boost consumer demand (by raising disposable income) and partly to stimulate work effort, production and investment (by lowering rates).

The existing empirical evidence on the response of real gross domestic product to added government spending and tax changes is thin. In ongoing research, we use long-term U.S. macroeconomic data to contribute to the evidence. The results mostly favor tax rate reductions over increases in government spending as a means to increase GDP.

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