LECTURE 26
SHORT-RUN AND LONG-RUN EFFECTS OF FISCAL AUSTERITY
APRIL 30, 2013

I. OVERVIEW

II. ORIGIN OF THE IDEA OF EXPANSIONARY FISCAL CONTRACTIONS
   A. Normal short-run impact of fiscal contraction
      A. Giavazzi and Pagano
         1. The cases of Ireland and Denmark
         2. Possible mechanisms by which budget cutting could raise growth.
         3. Concerns about this study
      B. Alesina and Ardagna’s evidence
         1. How do they identify fiscal consolidations?
         2. Findings

III. WILL IT HURT? MACROECONOMIC EFFECTS OF FISCAL CONSOLIDATIONS
   A. Why might Alesina and Ardagna’s study be flawed?
   B. WEO’s action-based approach
   C. Are consolidations contractionary?
   D. What factors make effects of fiscal austerity less negative?
   E. Results for tax-based and spending-based consolidations
   F. Implications of the study

IV. IMPACT OF HIGH PUBLIC DEBT ON GROWTH
   A. Possible mechanisms for long-run effects of budget deficits
   B. Reinhart and Rogoff’s Evidence
      1. Methodology
      2. Results
   C. Herndon, Ash, and Pollin’s Critique of Reinhart and Rogoff
      1. Data and calculation issues
      2. Results
   D. Is Reinhart and Rogoff’s relationship causal?

V. CONCLUSIONS