

The Effectiveness of Fiscal Policy in Combating Economic Crisis. An Analysis Based on the Economic Literature

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Motto: "There are reasons to believe that the war-based multiplier of 0.8 substantially overstates the multiplier that applies to peacetime government purchases...In any event, when I attempted to estimate directly the multiplier associated with peacetime government purchases, I got a number insignificantly different from zero." (Robert Barro, 2009).

Abstract. *The objective of this research is to identify, in the economic literature, the main factors which constrain the transmission of the fiscal shocks to the real economy. The interest in finding the most efficient fiscal stimuli in recovery the economies passing through crisis period has got increased as soon as the expansionary monetary policy promoted by most of the central banks has not generated an increase of the confidence in the private economic agents and, as a consequence, an increase of consumption and of the private investments. Even though it represents the Keynesian solution for recovery the economies which have been affected by the crisis, the fiscal expansion promoted during the recession periods does not generate the same expected positive effects any more (increase of consumption, significant decrease of unemployment, increase of revenues in economy), as they are conditioned by the reaction of the private economic agents to the fiscal stimuli. For example, the decision to decrease taxation may not automatically generate the significant increase of consumption (a condition for spreading the multiplier effect in economy), under the terms of pessimism or of the difficulty to access loans. As a result, the fiscal multipliers tend to be rather proper, and their value decreases more during the deep economic recession periods.*

Keywords: fiscal policy; fiscal multipliers; neo-Keynesian; automatic stabilizers.

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1. Efficiency of fiscal policy, according to the modern macroeconomic approaches

The Keynesian economic theory asserts that the public debts have had a higher impact upon the GDP, if compared to the transfers or to the taxes level, as the latter ones does not generate a direct influence upon the output gap, but they mainly influence the available income and afterwards, to a smaller extent, they influence the level of the private consumption. According to this approach, the multiplier associated with government purchases is less than one, but it is higher for the countries which prove predilection for imports and for the countries which practice a fixed exchange rate. Other streams of economic thinking (such as those related to the reasonable anticipations, to the real business cycle, to the economic institutionalism) deny the importance given to the increase of the public spending in stimulating economy, while the multiplier decreases to zero in time. According to them, the economic agents anticipate the increase of the future taxes in order to cover the budget deficits generated by the public spending, and, on a long-term, the government only replaces the private spending with the public spending, so that there will not be any modifications to the living standard.

The actual macroeconomic schools have developed based on certain assumptions which are specific to the neoclassical economics (prices flexibility) and to Keynes (prices and wages rigidity). According to the first assumption, the fiscal policy will have a lower efficiency, as the output would react to a smaller extent to the expansionary shocks. On the other hand, the fiscal policy generates both short-term and long-term effects, according to the neo-Keynesians.

1. *The new classical economy (Lucas, Sargent)* brings the following arguments for the low impact of the fiscal shocks:

- The change of the aggregate demand influence to a small extent the level of the output and of the revenues from economy;
- The economic agents' anticipations are reasonable, and they are not affected by the specifically Keynesian "short-run myopia"; the economic agents optimize their choices related to consumption in a forward-looking manner and they have reasonable anticipations;
- The economic agents do not suffer from monetary illusion and, as a consequence, only the real modifications (the relative prices) have an influence upon the consumption decision;
- The prices and the wages have a high flexibility degree;
- According to the Ricardian equivalence, the increase of the public spending, which is financed either by loans, or by taxes, does not

generate an improvement of the welfare state, as the consumption and the GDP remain unchanged. The decreases of the public savings (as a result of the increase of the public spending) will be compensated by the increase of the private savings, due to the consumers' anticipations about the future increase of taxation. In an economy which is dominated by a Ricardian view upon economy, the fiscal multipliers are close to zero;

- The long-term rate of unemployment depends on the government intervention to a small extent only. Thus, the multiplying effect of the fiscal policy will be lower, as the rate of unemployment is closer to NAIRU: the increase of demand in economy determines the increase of labor demand, while the decrease of unemployment.

2. *The neoclassical synthesis (Hicks, Samuelson)* combines the Keynesian aspects on a short-run with the neoclassical elements, according to which the GDP evolution is influenced by aspects which are specific to the aggregate offer-capital and labor accumulation. According to this theory, the expansionary fiscal policy will generate the increase of consumption and of the GDP on a short-run only, thus contributing to the increase of the domestic demand. However, on a medium term, the constraints which are specific to the aggregate offer will generate a decrease of the GDP towards the level which has been recorded prior to the fiscal expansionary shock.

3. *The new-Keynesian economics (Taylor, Blanchard, Mankiw)* has hypotheses which are similar to those belonging to the new classical economy (optimizing the forward-looking decisions, reasonable anticipations), but it also supposes the existence of nominal and real rigidities. The New-Keynesian approach suggests that the fiscal policy has a lower impact upon the economy, as:

- the consumption does not depend on the current consumption any more, but on the permanent income, so that the individual household will react to a fiscal expansion in case it generates a long-term increase of the income;
- the fiscal expansion generates inflationary anticipations; if they are reasonable, the government decisions will influence the economy on a short-run to a small extent;
- the consumers act according to the principles of the Ricardian equivalence;
- there is a variety of imperfections in economy, and the aggregate offer will not immediately react to the variations of the demand; the imperfections existing in the real economic world are essential for understanding the economic fluctuations.

4. *The theory of the real business cycle (Kydland, Prescott)*

According to this theory, the business cycles are caused by the fluctuations recorded by the rate of increase of total productivity of the output factors, and the distinction between the short and the long-run in analyzing the economic fluctuations and the potential GDP is abandoned. The fiscal policy becomes efficient only if it generates a sustainable increase of the potential GDP. The fundamental instruments which can generate such effects are mainly the productive public spending (education, research-development, public investments) and the taxes applied to capitals.

2. Keynesian and non-Keynesian effects of the fiscal policy

The estimates made on the basis of the models inspired by the previously mentioned theories are extremely divergent with reference to the fiscal policy's impact upon consumption – the main mechanism which helps in spreading the fiscal multiplying effect in economy.

According to the models which are specific to the real business cycle, an increase of the public spending during the current period will be financed by means of the future increase of taxes, thus having a negative impact upon the real current assets of the individuals and of the consumption. In order to neutralize this impact, the human beings will increase the number of working hours, and this will result in an increase of investments (in order to increase the capital stock) and of output. The neo-Keynesian models result in similar effects of the fiscal expansion, as a consequence of the human beings' forward-looking behaviour. However, the labour market reacts differently in the two models. Thus, according to Pappa (2009), the real wages get increased in the neo-Keynesian models, as a result of a positive shock of the government consumption, this evolution being opposite to that encountered in the models of the real business cycles. The increase of output results in the increase of the labour demand to a greater extent than the increase of the labour offer.

However, there are other models which validate the positive impact of the expansionary fiscal policy upon consumption:

- Limnemann (2006) applied a model of the real business cycles within a utility function for consumption and spare time, both preferences being replaceable. The negative effect of the fiscal expansion upon the real assets increases the number of working hours, thus reducing the preference for spare time and it increases the utility related to consumption. The consumption, the number of working hours and the output will get increased.

- Mankiw (2000), Gali and others (2007) included two types of households in the neo-Keynesian models – the Ricardian and the non-Ricardian ones, the latter ones consuming the entire available income. As a consequence, the fiscal expansion will generate the increase of consumption for the non-Ricardians and, depending on their share, the aggregate increase of consumption is possible. For example, according to Monteforte and Sessa (2009), their share is between 30 and 40% within the Euro zone.
- Corsetti, Meier and Muller (2009) gave arguments for the fact that the increase of the public spending at present will not necessarily be financed by means of increasing the taxes, but by decreasing the spending. Under these terms, the reversal of the public spending creates anticipations referring to the future decrease of the real rate of interest on a short term (the central bank decreases the rate of interest under the terms of lower inflationary anticipations), and this fact determines the long-term decrease of the current interest rate and, as a consequence, the increase of the domestic demand (the above described mechanism is valid under the terms of prices rigidity in economy).
- Blinder (2004) demonstrated that the temporary decreases of taxes tend to generate the increase of the current consumption (and not its decrease, according to the Ricardian equivalence), as the consumers act in a forward-looking manner and they will want to maximize their current consumption to the prejudice of a future consumption (with higher taxes).

The analysis of the fiscal policy's impact upon consumption should also take into account the nature of the recession a certain economy passes through. The higher its intensity, the less immediate the economic recovery generated by the fiscal stimuli, because of the existence of three factors with deflationary effects:

- *the Keynesian paradox of saving* – the individual household saves as a consequence of the collective lack of confidence in the economy's capacity to come back, and this automatically determines the decrease of output;
- *the decrease of the asset prices* – the economic agents will try to reduce their debts, being determined by a collective skepticism movement. All of them will sell assets at the same time, and this will result in the decrease of their value and in a deterioration of the others' solvency and in an automatic decrease of asset sales;

- *the decrease of loans* – the banks which encounter the increase in the share of the bad loans will have a higher aversion to risks, and this will generate the decrease of the loans.

However, there is another approach according to which the expansionary fiscal policy is more efficient during the deep recession periods, as the private economic agents, who are facing a series of budget constraints, will consume the additional income to a greater extent and they will not save it. The fiscal regulation of the economy is especially motivated by the existence of a significant part of the households which encounter financial constraints and which would render the monetary policy less efficient (the argument for the use of the fiscal policy during the economic crisis). However, the increase of consumption performed by the households which benefit from the fiscal relaxation may be neutralized by the tendency of other (unconditioned) households to decrease consumption. *As a consequence, the multiplying effect of the fiscal policy will be as higher as the share of those who are not able to save or to get loans is higher.* Tagkalakis (2008) estimated the validity of the previous relation for the OECD countries between 1970 and 2002, under the terms of a fiscal policy's higher impact upon consumption, as the part of the households which face financial constraints during the economic recession periods get increased.

The efficiency of the fiscal policy does not depend only on the recession's influence upon the consumption/investments behaviour of the economic agents, but also on the quantum/dynamics of the public debt in the economies which experience an economic downfall. Thus, the countries which are characterized by high structural budget deficits, which have been accumulated during the economic expansion period and by means of high services of the public debt which are due during this period, will rather have to implement restrictive fiscal measures, which are intended for increasing the confidence of the foreign creditors into the capacity to consolidate the public finances in a sustainable manner. Otherwise, the fiscal expansion at high levels of the public debt will be perceived by the consumers as being followed by the increase of the taxes, and this will have recessionistic effects in economy. The positive impact of the expansionary fiscal policy upon economy would only be valid in case of a low public debt.

Bertola and Drazen (1993) estimated that the expansionary fiscal policy also generates an increase of the private consumption in the case of a sustainable public debt, and the decrease of consumption occurs only in the case in which the public debt reached critical levels. According to Perotti (1999), together with the increase of the public debt, the distortions induced by the future increases of taxes diminish the positive effects of the increase recorded in

the public spending upon the private consumption. Reinhart and Rogoff (2010) demonstrated that, for the developed economies, the increase of the public debt over 90% of the GDP determines a 1% decrease of the GDP. The negative impact of the public debt upon the economic growth tends to be lower in the developed economies, if compared to the emergent ones, under the terms in which the latter ones prove a quite lower financing capacity, due to the capital market which is less developed and to the difficulty in having access on the international markets.

If, in the traditional approach, a restrictive fiscal policy generates an economic loss, Giavazzi and Pagano (1990), Barry and Devereux (2003) asserted the validity of the *expansionary fiscal contraction hypothesis* – the government's credible decreases of spending will provide a sustainable fiscal consolidation and they will reduce the anticipations referring to a possible increase of the taxes. The real rate of interest will be lower, and this will stimulate the long-term consumption, investments and output. The expectance related to the credible decrease of the taxes will determine an increase of the permanent income, and this will determine the increase of the private consumption. In the case of promoting policies for decreasing the public spending in order to provide the budget consolidation, the economic agent may anticipate future decreases of taxes, and the economic demand will get increased, thus diminishing the recessionistic impact of the fiscal contraction (Denmark 1983-1986 and Ireland 1987-1989).

3. What is the size of fiscal multipliers?

The different impact of the fiscal stimuli upon economies is influenced, among others, by the asymmetries existing in the economic agents' consumption/saving behavior, by the opening degree of economy, by the nature of the exchange rate or by economic flexibility. According to the Mundell-Fleming model, the fiscal policy constitutes a real stabilizing instrument of economy only under the terms of a fixed rate of exchange, as the intervention of the central bank cancels the crowding-out effect upon the net exports. However, it is possible for the fiscal policy not to generate the appreciation of the national currency, this correlation constituting the essence of the external crowding-out effect. As a consequence, even under the terms of an open economy and of a flexible rate of exchange, the expansionary fiscal policy may have a higher efficiency degree, as a result of the occurrence of a high pass through effect – the currency appreciation results in the decrease of the inflation rate and limits the crowding-out effect by decreasing the rate of interest. Moreover, the currency appreciation may generate the increase of consumption and of

investments by means of the effect upon wealth, under the terms of the increase in the incomes expressed in a foreign currency, which determines the increase of the foreign currency credits.

Generally, the structural models which have been used (SVAR type) outlined the existence of a fiscal multiplier which is higher on a short term for Germany, if compared to that of the other EU countries, as it is between 0.9 and 1.3. According to Barends and others (2003), the superior value is explained by the quite lower impact of the increase in domestic spending upon the imports. Based on the VAR type structural models, the multiplier of the public spending is generally proper, and their shock explains approximately 20% of the future GDP variation (Henin, 2001).

Another method used to identify the structural fiscal shocks was developed by Blanchard and Perotti (2002), who elaborated a splitting of the discretionary fiscal policy and of the automatic stabilizers' action. According to them, the USA GDP has a positive reaction to a shock of the public spending, and the multiplier related to them is lower, as the GDP components do not react in the same direction – the private consumption gets increased, and the private investments get decreased.

The panel type researches have seldom identified low fiscal multipliers and, in some cases, even negative multipliers, such as Hemming et al. (2002). In a research made by HM Treasury (2003) based on the Quest model of the European Commission, the multiplier of the public spending is proper in all the European countries which have been included in this analysis – 0.3 in Great Britain, 0.4 in Germany and 0.5 in Italy, France and Spain. Nallari & Engozogo (2010) estimated for USA a multiplier of the government spending of 0.39, which is very close to that recorded for the G7 countries. A research made by IMF (2008) estimated, based on a panel regression, the existence of multipliers less than one both for spending and also for taxes. According to this research, the credibility of the macroeconomic policies which have been promoted and the monetary adjustment degree are critical for the settlement of the fiscal policy's efficiency in stimulating the economy. Similar results have also been obtained for the emergent economies (including the Asian ones), in which case the multipliers of the public spending were approximately 0.6-0.7, this proving a significant level of the crowding-out effect upon the private investments.

The efficiency of an anti-cyclic fiscal policy is not only depending on the quantum of the fiscal pack, but also on its components (tax cuts versus the increase of the public spending). Generally, the hypothesis of an impact of spending which is higher than that of decreasing taxation is not valid. From the point of view of the long-term impact of the fiscal policy, we may consider that it is especially valid in the case of the public investments, through the positive

effects upon the aggregate offer. However, although the increase of the public spending generates a short-term increase of output which is higher than the decrease of taxation, they have a long-term contribution to the exclusion of the distortions which are specific for the labour market or by stimulating the capital accumulation.

Nijkamp and Poot (2004) made a meta-analysis for 93 of the published researches on the impact of the fiscal policy and the conclusion was that the positive effects of the conventional fiscal policies are limited. However, Spilimbergo and others (2009) estimated that the existence of a multiplier of the public debts which is higher than the decrease of taxation is real (1-1.5 for the higher-size countries, 0.5-1 for the medium sized economies and maximum 0.5 for the small and open economies). The values of the multipliers for the taxes and transfers are approximately half of those for spending, and in the case of the public investments they are a little higher than the other types of public spending.

Making an analysis for 91 sequences of fiscal expansion in 21 OECD countries beginning with 1970, Alesina and Ardagna (2009) outlined the superiority of the fiscal programs which are based on tax cuts, if compared to those aiming to decrease the public spending. The decrease of taxation generates stimulation for the future investments, if the increase of spending determines a decrease of investments. However, during the economic crisis periods, the lack of economic confidence determines the economic agents to increase their marginal inclination towards saving, and this will result in the decrease of the multipliers' value, especially the fiscal one.

Ilzetzki and others (2009) estimated the fiscal multipliers for 20 developed economies, by using quarterly data for the period 1960-2007. The most important results were as it follows:

- The output reaction to the increase of the public spending is lower and rather temporary in the developing countries versus the developed economies;
- The fiscal multipliers are higher in the economies with fixed rates of exchange (0.2 on a short term and 1.5 on a long term) and less open from an economic point of view;
- As for the economies with flexible rates of exchange, the increase of the public spending by 1% of the GDP determines a change in the domestic output which is insignificantly different from zero, both on a short and on a long term;
- The GDP reaction to the increase of spending is temporary in the economies which are characterized by a high share of the public debt;

- The fiscal multipliers for USA are lower both on a short and on a long term after 1980 – 0.64, respectively 1.19. However, the multipliers of the public investments record the highest value;
- The long-term multiplier of the public spending is 0.24 for the developed economies and 0.04 for the emergent ones. The cumulated multiplier of the government purchases (the cumulate change of the GDP related to the variation of the fiscal impulse) is 1.04 for the first group of economies and it is 0.79 for the economies belonging to the second group.

According to OECD (2009), the multipliers calculated in the internationally record the following values:

- The short-term multipliers of the government purchases are improper and they exceed the ones of the incomes, and the first ones are not influenced by the first degree effect of the increase of saving;
- Among the income multipliers, that of the income tax records values between 0.5 and 0.8, and that of the other tax forms is between 0.2 and 0.6;
- The multiplier of the profit tax records values between 0.3 in the year of the fiscal shock and 0.5 at the end of the subsequent year;
- The multiplier of the social contributions is between 0.4 in the first year and 0.6 at the end of the second year since the fiscal shock.

The fiscal multipliers estimated according to the OECD macroeconomic model outline the existence of low differences between the member states and the superiority of the multiplying effect of the public investments (in the second year after the fiscal shock):

Table 1

Fiscal multipliers in the main OECD countries

	The multiplier of the public investments	The multiplier of the government consumption	The multiplier of transfers	The multiplier of the indirect taxes	The multiplier of the taxes applied to the income
USA	1.3	1.1	0.9	0.5	0.9
Germany	1.2	0.8	0.7	0.4	0.7
France	1.2	1.0	0.8	0.4	0.8
Italy	1.2	1.0	0.8	0.4	0.8
Great Britain	1.2	0.9	0.8	0.4	0.8

Source: OECD, 2009.

4. Are they effective fiscal stimulus package?

The impact of the fiscal programs for stimulating economy depends on the economic opening and financial integration degree of the countries where they are applied. For example, in the small and open economies, most part of the increase of consumption is directed towards imports. As a consequence, except the case when the fiscal stimulation packs are perfectly coordinated at the international level, the open countries will prefer the recovery by means of increasing the public investments, which generate a higher impact upon the domestic market.

In order that the economy's fiscal stimulation packs could be successful, they should aim to consumption, so as to provide a higher multiplying effect of the fiscal policy. When assessing the success of an expansionary fiscal policy, the problem of "the economic agents' confidence" occurs – if they are not confident in the long-term fiscal stability within the economies which currently promote expansionary policies, then they will react less to the current fiscal stimuli.

The short-run effects of the economy's fiscal stimulation packs are influenced by the perceptions of its long-term costs. Thus, the more expensive is an expansionary fiscal policy perceived on a long term (the fast increase of the public debt and of the service related to it, the increase of the country risk), the less the economy will be influenced on a short term. The consumers without financial constraints will prefer to cover the future risks, and the fiscal expansion will be reflected in the decrease of consumption, thus generating a negative multiplier (Giavazzi, Pagano, 1990, Alesina, Perotti, 1997). The efficiency of the expansionary fiscal policy also depends on the credibility degree of the announced measures. The more they are perceived as being more incoherent, the more any decision to try to stimulate the economy will introduce instability in the economic system, thus being able to generate the decrease of the private consumption.

The efficiency of the fiscal stimulation packages has been estimated by means of macroeconomic models which help in determining the fiscal multipliers. For example, in the case of USA the Romer and Bernstein model has been used, according to which the multiplier of the public spending is improper both on a short term (1.05, after the first year), and also on a long term (1.55 cumulated after four years). However, there is another model which has been elaborated by Smets-Wouters and which asserts that the value of the public spending' multiplier is lower during the entire period 2009-2013, if compared to the previous model. The economic growth would be lower than the value of the fiscal package for stimulating the economy, as a result of a

permanent contraction effect of consumption and of private investments. After four years since the shock generated by the fiscal pack, the GDP gets increased by 40% only from the initial budget effort. This model supposes the existence of economic agents which form forward looking anticipations and which anticipate deep changes of the fiscal instruments for the years subsequent to an expansionary fiscal shock. It is the model which is specific to the less flexible economies, to those which have certain constraints (such as an agreement with IMF) or to those which are characterized by diffidence/skepticism of the private economic agents. The more difficultly the economy will react to the initial fiscal shock, the higher the profitability in the reversal of the promoted fiscal policy (in order to cancel the impact of the budget deficit's emphasis).

The discretionary fiscal measures aimed by the economic stimulation programs should be interpreted under the terms of the increase of the budget deficit and of the increase of the public debt. The most part of the increase of the deficit is the result of the automatic stabilizers' action during the economic downfall periods (especially the incomes being influenced). For example, in the case of the OECD countries, the budget deficit increased from 1.5% of the GDP in 2007 to approximately 9% of the GDP in 2009, and the public debt reached approximately 100% of the GDP. 75% of this deficit's increase has been the result of the automatic stabilizers, under the terms of the automatic decrease of budget revenues caused by the economic downfall.

Thus, as a consequence of the public spending' increase by 1% of the GDP, an increase of the budget deficit by the same quantum will occur in a first stage. However, the more the domestic output will react to the fiscal stimulus, automatically the more increased the budget revenues will be (e.g., from the indirect taxes, as a result of the increase of consumption), and the budget deficit will get decrease. For example, in the case of a public spending' multiplier of 0.7 (in the first year), the GDP will get increased by 0.7 Euro as a result of a fiscal impulse of 1 Euro. According to the researches made for the OECD countries, the budget deficit will automatically get decreased by approximately half of the GDP increase, namely approximately 0.35 Euro. As a consequence, an increased has been recorded for the budget deficit by 0.65 Euro only (1 Euro initial increase and 0.35 Euro decrease due to the GDP increase). The higher the fiscal multiplier is on a short term, the lower the level of the budget deficit will be on a medium term.

As a consequence, the later the adoption of a fiscal stimulus for economic recovery will be, the more automatically increased the budget deficit will be (as a result of the automatic stabilizers' action), and the fiscal intervention pack should become more significant. There have been made calculations for the fact that, under the terms of an economic down fall of approximately 5% in 2008-2009,

the budget deficit would have got automatically increased by 2.25%. As a consequence, the fiscal stimulus should have a higher intensity, if it is adopted with a lag. In order to be efficient, the fiscal measures should have a lower implementing lag, for the occurrence of effects. *According to IMF (2008), an efficient fiscal stimulus should meet the following conditions:*

- to be immediately adopted after the beginning of the economic contraction; thus, the risk that the measures could become effective too late is diminished (namely, when the budget deficit would be too high, and the economic contraction would be much greater); the risk is the promotion of a restrictive pro-cyclic policy instead of an expansionary anti-cyclic policy.
- to be significant as share in GDP, especially under the terms of an abnormal recession, and the fiscal multipliers will have lower values than the theoretical ones;
- to be sustainable and credible, under the term of the necessity to create fiscal stimulation packs without generating unsustainable increases of the public debt or a domestic/external financing risk of the budget deficit (which will result in the decrease of the economic agents' confidence in the economic evolution).

5. Conclusions

This research has made a synthesis of the main modern macroeconomic theories and of the economic researches, which have analyzed the efficiency of the fiscal policy in diminishing the effects generated by the economic crisis. In comparison with the Keynesian view, the expansionary fiscal policy has a lower multiplying effect in the real economy, as the driving mechanism is influenced, among others, by the reaction of the private consumption, by the level of the public debt and by the credibility of the adopted measures. In order to the fiscal packs for the economic stimulation could be successful, they should be adopted immediately after the economic down fall, they should be significant as a share in the GDP, they should not negatively affect the sustainability of the public finances and they should be focused on supporting consumption. The globally adopted fiscal packs (approximately 3.4% of the GDP during the period 2008-2010) have generated the increase of the budget deficit from 0.3% of the GDP in 2007 up to 6.7% of the GDP in 2009, and also the re-launching of the global economy, over the initial expectancies; as for the global economy, there are anticipations for an economic growth of 4.8% in 2010 (according to IMF, October 2010), 0.2 percents higher than in the initial estimation. Under these terms, most of the EU developed countries proposed to immediately adopt

budget austerity programs, in order to provide sustainability to the public finances. The greatest danger is that these restrictive programs could cancel the initial positive effects of the fiscal stimulation packs and that they could negatively influence the medium-term economic growth capacity.

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