

# Is Fiscal Stimulus an Effective Policy Response to a Recession? Reviewing the Existing Research

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## Summary

- This report examines existing academic studies that analyze evidence regarding the effectiveness of fiscal stimulus—additional government spending and/or tax relief—as a mechanism to mitigate the impact of a recession and speed up economic recovery. The research raises significant doubts about whether fiscal stimulus can achieve this objective.
- Evidence from University of California—San Diego professor Valerie Ramey and Harvard University professor Robert Barro demonstrates that the fiscal multiplier created by increased government spending is below 1.0, indicating that stimulus measures actually crowd out economic activity that would otherwise have occurred.
- Empirical research from Stanford University professor John Taylor shows that the US stimulus package during the 2008-09 recession failed to increase consumption and had little to no effect on economic growth.
- Research also shows that the Canadian government’s stimulus in response to the 2009 recession contributed little, if anything, to the economic turnaround.
- Harvard University professor Alberto Alesina finds that increases in government spending are associated with lower growth, while stimulus based on decreases in personal and business taxes are associated with higher rates of economic growth. In addition, Alesina’s work suggests that reductions to government spending are an important part of reducing fiscal deficits following a recession.
- Before implementing any fiscal stimulus packages, Canadian policymakers must consider the potential implications on both the economy and government balance sheets. Past history suggests that stimulus will not improve the Canadian economy and may even be a detriment to it.

# Is Fiscal Stimulus an Effective Policy Response to a Recession?

## Introduction

Is fiscal stimulus—additional government spending and/or tax relief—an effective mechanism by which governments can mitigate the impact of recessions and speed up economic recovery? This bulletin provides background on the critical question of stimulus, which is always of interest but particularly so when economies are in recession.

During the 2008–09 recession, Canadian governments enacted discretionary fiscal stimulus packages in response to the downturn. The stimulus included a mix of tax and spending measures that included tax cuts, public infrastructure spending, and industry subsidies. The primary purpose of these measures was to jump-start the economy.

There are already calls in Canada and the US for fiscal stimulus in reaction to the recession induced by the global outbreak of COVID-19 and the related government policies that have slowed or shut down large sectors of the economy. Given the importance of this issue, it is appropriate to review the existing research on the impact and effectiveness of fiscal stimulus programs at achieving their objective to improve the growth of the economy.

This report examines existing academic studies that analyze evidence of the effectiveness of fiscal stimulus. The spectrum of research reviewed is not meant to be exhaustive and focuses narrowly on empirical assessments of the effect of fiscal stimulus based on historical data and experience, rather than model-based work. Although the latter literature has important contributions to make, it is less helpful in confirming real-world effects from stimulus. Notable authors using empirical assessments include University of California San Diego professor Valerie Ramey, Harvard University pro-

fessors Robert Barro and Alberto Alesina, and Stanford University professor John Taylor. Their findings have important implications for Canada as policymakers in this country contemplate their potential response to the recent recession.

## Can government spending help the economy?

University of California–San Diego professor Valerie Ramey and Harvard University professor Robert Barro have conducted decades of empirical research assessing the economic implications of fiscal stimulus, specifically, increases in government spending.

Economists generally use a concept called the “fiscal multiplier” to help illustrate their findings. The fiscal multiplier shows the impact that each additional dollar of government spending can have on the economy. The logic is that in times of economic downturn or recession there are underused resources in the economy and that government spending can work to mobilize these resources, create jobs, and increase incomes. The theory assumes that once the effects of government spending are felt, people will spend more of their additional income and create a positive ripple effect throughout the economy. Person A receives new money from the government and spends a significant portion of it on goods and services provided by persons B and C, creating income for persons B and C, who likewise spend a significant portion of the income on goods and services, and so on, and so on. If the multiplier is greater than 1.0, then a \$1 increase in government spending will increase overall economic output by a value greater than \$1. For example, a multiplier of 1.5 means that a \$1 increase in government spending raises overall economic activity (i.e., GDP) by \$1.50.

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It's important, however, to understand that increased government spending often is financed by reductions in spending in other sectors of the economy such as private consumption and investment. Simply put, government spending is not a free lunch. The resources for government spending must come from somewhere. As such, if the multiplier is less than 1, then government spending crowds out economic activity that would have otherwise taken place. This is contrary to the objective of fiscal stimulus.

A study by Ramey (2011) surveyed more than 30 studies to assess the existing literature on deficit-financed temporary spending—typically used in stimulus—and found that the multiplier for the United States is likely between 0.8 to 1.5. The study notes that large increases in government spending are typically followed by increases in economically harmful taxes (Burnside et al., 2003). For this reason, Ramey concluded that any estimate should account for the effect of taxes on the economy. Ramey found that the existing empirical research indicates tax multipliers between -0.5 to -5.0, meaning that even if the spending multiplier is positive, there will be countering effects for future tax increases which may reduce or cancel out any stimulus effects. Overall, the study concluded that there is not clear empirical evidence that the government spending multiplier is greater than one, and thus government spending does not necessarily stimulate private activity, so overall economic activity might not be improved from additional government spending.

In another study, Ramey (2012) used several different samples, models, and specifications to calculate a spending multiplier. She found that across these estimates government spending tends to reduce private spending. Put differently, \$1 of additional government spending led to less than \$1 of private activity. Ramey concluded

that the implied multiplier on total GDP is about 0.3, and that tax changes do not have a significant effect on the spending multiplier. Her empirical data indicated that government spending would not stimulate the private sector, and in fact, likely crowds out private activity, such as consumption, investment, or net exports.

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The study also explored the impact of government spending on labour markets. It found that while there is an increase in employment from government spending, it is almost entirely in the government employment, as opposed to private employment, again indicating limited effects on the private sector from government spending.

Ramey and Zubairy (2018) conducted further research to test whether government spending multipliers differed based on the level of unused resources in the economy (ie., “slack”) or based on interest rates reaching the zero lower bound. “Slack states” are defined by an unemployment rate above 6.5 (higher thresholds are used in robustness checks). The study also reviewed multipliers at the point of military news shocks—using *Business Week* and other newspapers to identify when individuals expect a change in government spending based on news of military spending. The study also reviewed multipliers using the Blanchard-Perotti method, which uses information on tax and transfers



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to infer the point of actual government spending.<sup>1</sup> These methods of identification work to capture both delayed increases in government spending and immediate rises in government spending.

Simply put, the study found that government spending multipliers were below 1.0 regardless of the level of slack in the economy. Generally, estimates for the multiplier range between 0.3 and 0.8. These findings are close to the estimates from Barro and Redlick (2011). For interest rates near the zero lower bound, there is also limited evidence that multipliers are greater than one. The results of this study imply that government spending multipliers are not necessarily larger during periods of recession.

Professor Ramey's extensive work in the field of fiscal policy, and particularly measuring the real-world effects of stimulus, indicates that additional government spending is not an effective response to recessions since there is limited evidence that it leads to a net increase in economic activity.

Several studies have used defense spending as a way to measure fiscal multipliers more generally. This measure is useful because changes in defense spending are larger and, more importantly, likely to be caused by factors that are outside of the economy, more specifically, whether the country is at war or not.<sup>2</sup> This approach prevents issues in determining

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<sup>1</sup> Blanchard-Perotti also considered the effect of taxes. Although this study limits the shock to current spending, Ramey and Zubairy's results are robust to the inclusion of taxes.

<sup>2</sup> There is a common misconception that government spending in World War II ended the Great Depression. An analysis by economic historian Robert Higgs (2009) highlighted how aggregate statistics, such as unemployment and industrial production,

the direction of causation between spending and the state of the economy. Put differently, these studies assume that government defense spending is less likely to respond to economic events, which makes it easier to determine if such spending has caused a change in economic activity.

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In his seminal work, Barro (1981) reviewed temporary defense spending from 1942 to 1978. His regression-based analysis calculated a multiplier of around 0.8 from such spending. He then reviewed both temporary and permanent defense spending for current and expected wartime activity. In all cases, the results indicate that government spending had a dampening effect on the economy as opposed to an enhancing effect.

More recently, Barro and Redlick (2011) studied historical US data (1917 to 2006) and found defense spending multipliers of between 0.4 and 0.8. The results reinforced previous findings that regardless of whether defense spending is temporary or more permanent, the multiplier is less than one. This indicates that defense spending crowds out other aspects of the economy, leading to less economic activity than if

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which have been used to support this theory, are misleading in the context of a world war.

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the government spending had not been undertaken. The authors find that investment is particularly affected by such crowding out.<sup>3</sup>

The effect of government spending (stimulus) on investment is a particularly important aspect of this debate. Stanford economist John Cogan (2009) along with several colleagues investigated the effects of government spending on investment and found a strong crowd-out effect. Specifically, Cogan et al. (2009) demonstrated that there is an almost immediate permanent reduction in private sector investment and consumption once additional government spending is introduced. The study estimated that the flow of private sector goods and services falls by 60 cents for every dollar of government stimulus spending enacted. The authors conclude that stimulus spending has little, if anything, to do with economic recovery following a recession.

The authors also conclude that temporary spending actions share a common problem—most stimulus measures do not promote a “faster-growing sustainable recovery,” but instead add more government debt which can become a drag on the economy.

On balance, these studies demonstrate that increased government spending does not stimulate private consumption or economic activity more broadly. In fact, it may even reduce it. Increased government spending often is financed by reductions in spending in other sectors of the economy such as private consumption and investment. Empirical research from Ramey, Barro, and Cogan demonstrates that the multiplier is likely below 1.0, confirming that stimulus spending crowds out economic activity that

would have otherwise happened. As a result, fiscal stimulus spending does not meet its objective of growing the economy.

## Do temporary stimulus measures increase consumption?

Noted economist and Stanford University professor John Taylor researched the economic impact of the fiscal stimulus implemented in the United States during the 2008–09 recession. The package included federal transfers to the states for infrastructure, tax rebates, temporary tax cuts, and “cash for clunkers.” The rationale behind the package was to increase private consumption in an attempt to jump-start the economy.

Specifically, Taylor (2018) analyzed the impact of the temporary tax rebates sent out by the government in spring 2008. Although Taylor found there was a short-term increase in disposable income for individuals and families when the payments were first made, his empirical analysis determined there was no noticeable increase in consumption during the time of the rebate. In fact, Taylor demonstrated that consumption actually declined in July and continued to do so for several months afterwards. Put differently, the temporary rebates (ie., stimulus) had little to no effect on private consumption.

Some critics responded by arguing that consumption might have been even lower without the tax rebates. However, such assertions are unprovable counterfactuals, but more importantly, as Taylor pointed out, the objective of the stimulus package was to increase consumption beyond the trend observed, which his analysis shows did not occur.

Furthermore, Taylor estimates that the economic impact of the temporary stimulus measures was small due to the forward-looking

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<sup>3</sup> In Barro and Redlick (2011), investment includes consumption of durables.

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perspectives of households. Households and businesses chose to save the temporary payments or use them to pay down debt rather than increase consumption because they anticipated that higher government spending would be financed through higher taxes in the future.

Taylor's empirical conclusions are entirely in line with Nobel laureate Milton Friedman's work on the permanent income hypothesis, which shows that *temporary* increases in income will lead to minimal increases in consumption because people understand the temporal nature of the increase in income. *Permanent* increases in income, however, are likely to lead to larger increases in consumption because people have higher expectations for future income.

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Other studies have also analyzed the impact of stimulus programs that aimed to boost consumption during the 2008-09 recession. Mian and Sufi (2010), for instance, examined the "cash for clunkers" program that paid consumers to purchase newer, more fuel efficient vehicles and trade in their older, less fuel-efficient

vehicles over a two-month period. The primary rationale given to support the \$2.9 billion program was that it would stimulate demand and increase car sales.

However, Mian and Sufi showed that this program had little to no effect on overall car sales. The study found that the program merely accelerated the timing of car purchases, but did not increase aggregate demand. Put differently, most vehicle purchases prompted by the program were simply moved (or borrowed) from the near future. The authors also note that there was a "swift reversal" in vehicle sales once the program ended and it did not increase purchases in the long-run. Their ultimate conclusion was that "cash for clunkers" failed to stimulate consumption.<sup>4</sup>

In written testimony to the US Senate Budget Committee, professor Taylor recommended an alternative course of action. Taylor argued that stimulus measures must be permanent, pervasive, and predictable (Taylor, 2008). This stands in stark contrast to arguments made by many economists favouring stimulus who argue for temporary, timely, and targeted measures.<sup>5</sup> Taylor explained that temporary measures are unlikely to have much real impact on the economy while permanent fiscal changes can help overcome negative or low economic growth circumstances. Governments should enact long-term fixes for the economy and pursue more lasting fiscal changes (ie., permanent tax cuts).

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<sup>4</sup> Additionally, "cash for clunkers" effectively led people to destroy valuable assets (ie., wealth). For more information see <[https://www.econlib.org/archives/2009/08/cash\\_for\\_clunky.html](https://www.econlib.org/archives/2009/08/cash_for_clunky.html)>.

<sup>5</sup> Economist Lawrence Summers (2008) argued for stimulus measures to be designed using these three principles during the 2008-09 recession.

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His testimony also specifies that the targeted approach to spending in the 2008-09 stimulus did not work well, and in his view, was a reason behind the weak recovery. Instead stimulus should be broad, meaning that it should apply to individuals and businesses so that both employees and employers benefit.

Finally, Taylor recommended that policy actions should be clear and understandable so that individuals and businesses know what to expect when they make decisions regarding the future of their finances. Government measures during recessions are often confusing, ill explained, or ad hoc. Ensuring predictability and clarity in policy is paramount. For example, the Troubled Asset Relief Program (TARP) was created during the 2008-09 recession with the intention of stabilizing financial markets and the economy by buying up toxic assets from financial institutions. However, Taylor (2011) found evidence that the erratic implementation, lack of oversight, and confusion about rules in rolling out TARP actually exacerbated the recession. Conditions only began to improve once uncertainty was reduced and TARP was reformed to inject equity into banks rather than buy troubled assets.

It is important to acknowledge that Canada is facing unprecedented circumstances in 2020 in which the public health pandemic has caused much business activity to stop temporarily. However, even though recent federal programs such as the Canadian Emergency Response Benefit (CERB) provide temporary and timely relief to households, these policies intend to stabilize incomes rather than stimulate the economy. Taylor's three principles will be particularly important if Canadian governments shift towards introducing additional spending measures with the purpose of stimulating consumption and jump-starting the economy.

In summary, Taylor's empirical research demonstrates that America's stimulus measures during the 2008-09 recession were ineffective at increasing consumption and had little to no effect on economic growth. Instead, households largely chose to use temporary tax rebates for savings or paying down debt. These findings also have important implications for Canada today because many households and businesses are heavily indebted, so here, too, any new stimulus money is likely to be used to pay down debt.

## A Canadian case study on stimulus

Veldhuis et al. (2010) assessed the economic impact of the fiscal stimulus implemented in Canada during the 2008-09 recession. The two-year *Economic Action Plan* was a \$47.2 billion stimulus package which relied heavily on spending in areas like infrastructure, housing construction, and targeted support for industries, as opposed to tax relief. The plan sought to stimulate private spending, support housing construction, build infrastructure, and help businesses.

To measure the effectiveness of the government stimulus, the authors reviewed data on the components of economic growth (ie., GDP): government consumption (ie., spending), private consumption, investment (government and private) and net exports (total exports minus imports). Using this data, the study examined the extent to which each component contributed to economic growth in the second half of 2009. Stimulus would be considered successful if government consumption and investment contributed meaningfully to economic growth.

The plan was introduced in the first quarter of 2009. By the third quarter, the economy started to improve—it grew 1.1 percentage points from



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-0.9 percent in the second quarter to 0.2 percent in the third quarter. The authors found that of the 1.1 percentage-point increase, government consumption contributed only 0.1 percentage points, private consumption contributed just 0.3 percentage points, and net exports contributed -0.4 percentage points. Meanwhile, investment contributed 1.1 percentage points and was driven almost entirely by private investment as opposed to government investment (such as infrastructure spending).

Targeted efforts by the government to stimulate spending and investment in certain areas were also found to have limited to no success. Despite the government’s effort to stimulate housing construction, investment in residential structures did not contribute to economic growth during this period. Further, support for businesses in the form of temporary tax relief for the purchase of new computers was small and not a major contributor to the growth in private investment.

The economy grew by 1.0 percentage points in the fourth quarter—from 0.2 percent to 1.2 percent. The authors found that over this period, a rise in net exports was solely responsible for the economic improvement. Despite the government’s effort to stimulate private consumption, the authors found it did not contribute to economic growth over this period, nor did government consumption. Further, both government and private investment actually hindered growth between the third and fourth quarter. Again, despite allocating more than 40 percent of stimulus spending to infrastructure (Canada, DOF, 2009), this component had a negligible effect on economic growth.

Moreover, the study found that the contribution of government consumption and investment to economic growth was markedly constant before,

during, and after the recession, which means that government activity had little to no effect regardless of the state of the economy.

The authors note that permanent tax relief (an approximately \$4.5 billion reduction in personal income taxes) was likely a contributing factor in the economic turnaround. However, its impact would have been limited as it was only a small component of the plan.

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In sum, Veldhuis et al. (2010) show that government stimulus in response to the 2009 recession contributed little, if anything, to the economic turnaround in the second quarter. This study adds to the existing body of research which indicates that government stimulus, in this case investment and consumption, has little to no effect on economic growth.

### Differing approaches to fiscal shocks

Significant research has been undertaken to evaluate the effectiveness of different approaches to fiscal policy both during and after a recession. What should governments do, if anything, to stimulate the economy during a down-



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turn? How should governments implement the fiscal adjustments that follow a recovery?

Government approaches to these questions can have markedly different effects on the economy. The importance of understanding historical evidence to develop effective fiscal policy is obvious, given the amounts of public money involved and the eventual effects on the well-being of residents. Luckily, economists have examined these questions in depth, using experience both in North America and beyond to evaluate different approaches.

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Alesina and Ardagna (2009) examined large changes in fiscal policy in OECD countries, looking at the period between 1970 and 2007. Using a simple regression, the authors contrast the results of spending-based approaches and tax-based approaches, both to fiscal stimulus and to the fiscal consolidation that follows. In other words, they examined two main situations through the lens of spending-based and tax-based approaches: first, during a recession, when governments often turn to fiscal stimulus in an attempt to help the economy, and second, following the recession, when fiscal consolidation occurs through tax increases and/or spending reductions aimed at reducing the deficit without harming the economy.

Before discussing their results, it is important to note two methodological points. First, this

work deals only with the composition of fiscal stimulus and adjustment, and stops short of estimating multipliers. Second, the authors only look at large changes in fiscal policy. They define this as a short-term change in the fiscal balance of government of at least 1.5 percent of GDP. Put differently, they rule out smaller but prolonged fiscal changes so as to focus on the larger adjustments which clearly indicate a change in fiscal stance.

A key finding of the Alesina and Ardagna (2009) study is that fiscal stimulus based on tax cuts is “much more likely” to be growth enhancing than stimulus based on spending increases. The authors examine fiscal stimulus through a regression model that evaluates increases in current government spending, tax cuts, and capital spending. The results show that increases in government spending were associated with lower growth, while stimulus based on decreases in indirect, business, and personal taxes were associated with higher rates of economic growth.

An important aside to the core argument about spending versus tax cuts are their results on capital spending. Alesina and Ardagna show that increases in capital spending do not show any significant effect on growth. Examining the US experience, they note that compared to tax cuts, “the benefit of infrastructure projects which have ‘long and variable lags’ is much more questionable.” This is consistent with findings in Canada, as examined by Poschmann (2020), and Veldhuis (2010, discussed above) both of whom detailed myriad problems with government infrastructure investment as a response to downturns. Critically, those studies found that public investment had little immediate impact on growth, which is consistent with Alesina and Ardagna’s findings.

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Mountford and Uhlig (2009) examined similar questions to Alesina and Ardagna discussed above, but used a slightly different approach. The authors examine only the experience of the United States from 1955 to 2000. The authors look at three potential scenarios in response to a fiscal shock: deficit spending, deficit-financed tax cuts, and balanced budgets.

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In terms of which approach has the most positive effect on GDP, in other words the approach that best stimulates the economy, the authors find that deficit-financed tax cuts have the greatest effect of the three scenarios. The authors estimate “a maximal present value multiplier of five dollars of total additional GDP per each dollar of the total cut in government revenue 5 years after the shock” Mountford and Uhlig (2009).

The deficit-financed tax cuts compare particularly favourably to deficit spending, especially over the longer-term. When comparing present-value multipliers of the two scenarios (deficit spending and deficit-financed tax cuts), the best-performing approach was a deficit-financed tax cut, at a multiplier of 5.25, 12 quarters after the shock. This is far superior to the

best result achieved by the deficit spending model, which peaks at a multiplier of .65 in the first quarter after the shock.

Interestingly, this finding aligns in many ways with the work of Ramey, Barro, and Redlick (2011) discussed above. While those authors were evaluating the multiplier effects of spending aimed at increasing stimulus, Alesina (2012) here contrasts that approach with tax cuts, adding to the case against increased spending.

Indeed, Mountford and Uhlig (2009) discuss the possible response of a spending shock. They find that “the response of consumption is small and only significantly different from zero on impact and are thus more in line with those of Burnside et al. (2003), who find that private consumption does not change significantly in response to a positive spending shock.” This finding is consistent with the results discussed earlier, where spending is shown to have only minimally positive multiplier effects.

The authors do concede that a different analysis by Blanchard and Perotti (2002) showed a significant rise in consumption in response to a spending shock. However, the authors emphasize that their modeling shows different results, producing a small positive effect initially, and negative effects thereafter.

There are other important findings in their work. In addition to the finding that deficit spending weakly stimulates the economy, Mountford and Uhlig find that deficit spending crowds out private investment and does not cause a rise in real wages. This is consistent with the other literature this report examined. These findings carry significant implications for policymakers in Canada and the United States. In particular, the dramatic difference in performance between tax cuts and increased spend-

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ing should serve as an important guide to those making fiscal policy decisions.

## What should governments do after the recession?

Alesina (2012) considers different approaches to the question of what to do after a recession. In particular, he compares tax-based and spending-based approaches to fiscal consolidation, which is the period after the downturn when governments are making reforms to move toward balanced budgets. Put differently, he contrasts spending cuts as opposed to tax increases as two ways to reduce budget deficits post-recession. Which of the two approaches is less costly, and what are the economic effects?

Looking at OCED countries, where government is in the range of 40-50 percent of the economy, Alesina concludes that spending reductions have less adverse effects on the economy than tax increases.

The author goes further, however, in saying that a reduction in spending may not be contractionary at all. He notes that a large fiscal consolidation that encompasses a mix of public sector wage moderation, monetary policy, and stabilizing the effect of inflation may be less costly than we think, and in fact “may not be costly at all.”

Alesina emphasizes that too much of the current conversations around fiscal adjustment deal with “how much” as opposed to “how.” He gives an example, explaining “In my view, which I think is supported by the historical evidence, a fiscal adjustment of, say, 3% of GDP, which is done all on the tax side, could be much less successful and much more recessionary than a smaller adjustment on the spending side.” In other words, the discussion over whether the adjustment should come from spending reduc-

tions versus tax increases is at least as important as the discussion of how much those adjustments should be.

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The author also confirms the role of automatic stabilizers,<sup>6</sup> and explains that these stabilizers should be allowed to do their work, even if it causes a deficit (or a greater deficit). However, he does emphasize the importance of those deficits being financed by surpluses when things return to normal. In other words, a balanced budget in every period isn't always necessary, as governments can take advantage of the principle of tax smoothing (saving in good times so you can spend in bad times).

Alesina cautions that, unfortunately, policymakers do not often follow this basic principle of tax smoothing. They are often content to let deficits grow during recessions and are less comfortable running surpluses when times are good.

Overall, Alesina's work suggests that reductions to government spending are an important part of reducing deficits following a recession. Combined with the proper use of automatic stabilizers, a reduction in spending can have more positive effects on the economy than increasing taxes as a means to cover deficits.

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<sup>6</sup> For further reading specific to the Canadian context, Fuss and Palacios (2019) have examined the role of automatic stabilizers in more detail.

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## Conclusion

The research reviewed in this report raises significant doubts about whether fiscal stimulus can achieve its objective to kick-start the economy following a recession. In fact, several empirical studies conclude that stimulus measures have little to no effect on the economy and instead only result in additional government debt. For instance, the US stimulus package unrolled during the 2008–09 recession failed to increase consumption. Instead, households and businesses largely chose to save the temporary payments or use them to pay down debt because they anticipated that higher government spending would be financed through higher taxes in the future.

Moreover, fiscal stimulus based on spending increases is likely to result in lower economic growth and hinder the economy rather than help it. Studies show that the eventual costs of deficit-financed spending are typically much higher than the immediate benefits and increased government spending requires a decline in other areas of the economy such as private investment. Evidence demonstrates that the fiscal multiplier created by increased government spending is below one, indicating that stimulus measures are actually crowding out economic activity that would otherwise have happened and do not meet their objective of stimulating the economy.

Before implementing any fiscal stimulus packages, Canadian policymakers must consider the potential implications on both the economy and government balance sheets. Past history suggests stimulus will not improve the Canadian economy and may even be a detriment to it.

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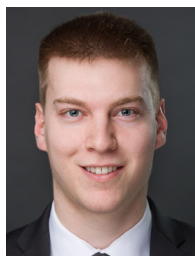
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# Is Fiscal Stimulus an Effective Policy Response to a Recession?



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