The Return of Fiscal Activism and Distinguishing the E¤ects of Fiscal Policy Tools

İBRAHİM ÜNALMIŞ (CENTRAL BANK OF TURKEY) <ibrahim.unalmis@tcmb.gov.tr>

The recent crisis has led to massive fiscal stimulus packages around the world to boost the economic growth. These stimulus packages include government consumption and investment spending and transfers to households. However, effects of these different fiscal policy tools on macroeconomic variables can be considerably different. In this paper, we contribute to the literature by comparing the effects of temporary increases in government consumption good spending, government investment spending and government transfers to households in a new Keynesian dynamic stochastic general equilibrium (DSGE) framework. Different from the conventional new-Keynesian literature, our model features private and public capital stock which enables us to examine the effects of productive government investment spending increases. We calibrate the model for the US economy and show that the magnitude and persistency of the responses of macroeconomic variables differ significantly across different fiscal policy choices. We also show that governments willingness for building up high debt stocks significantly affects the outcomes of fiscal stimulus efforts.