

On the Numerical Structure of Local and Nationwide Government Spending Multipliers: What Can We Learn from the Greek Crisis?

Topic: IO modeling: Computable General Equilibrium Modeling and Social Accounting Matrices

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We develop a multiregional general equilibrium model for Greece to simulate the short run impacts of temporary deficit-financed rises in government spending. It has been recognized that the fiscal multiplier is a function of structural features of the economy and policy reaction parameters. Moreover, the debate on the magnitude of the multiplier along the business cycle has also been the subject of disputed debates. On these grounds, we look at the Greek case by calibrating the model using data for distinct states of the Greek economy during the development of the recent crisis. Whether this matters for local and nationwide multipliers depends on qualitative differences of the numerical structures of the model. Our results imply that structural coefficients have a strong effect on government spending impact multipliers. In the case of Greece, lack of information on the changing magnitudes of behavioral parameters over time adds another layer of uncertainty to this debate.