NEWS RELEASE

Stimulus spending will not ‘kickstart’ economy, will increase government deficits and debt

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For Immediate Release

VANCOUVER—New government spending in response to the recession will likely have little effect on economic growth—yet will produce more government debt, finds a new study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

“In the coming months, as governments contemplate trying to kickstart the economy with more spending, they should recognize that evidence indicates this approach is ineffective and results in more government debt,” said Jake Fuss, Fraser Institute economist and co-author of ***Is Fiscal Stimulus an Effective Policy Response to a Recession?***

For example, during the 2008-09 recession, the U.S. stimulus package caused government debt to increase while failing to increase economic activity. Instead, most individuals and businesses chose to save the temporary payments from government.

In fact, according to much of the U.S. research, each dollar of government stimulus spending produced less than one dollar of economic activity.

The study also finds that government spending can “crowd out” private-sector economic activity (investment, for example) that would otherwise have happened. Consequently, fiscal stimulus based on spending increases will likely produce lower economic growth and hinder recovery rather than help it.

“Before implementing any fiscal stimulus package, policymakers must consider the potential implications on both the economy and government balance sheets, particularly as governments across Canada face large deficits and mounting debt,” said Tegan Hill, Fraser Institute economist and study co-author.

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