Public sector deficits and macroeconomic performance

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In the 1980s chronic public sector deficits forced countries to undertake fiscal adjustment. The need to face hard choices continues in the 1990s. But the problem is not a simple and easily diagnosed one with an obvious solution. Rather, public sector deficits have had widely differing consequences; high inflation in some countries, low inflation but also low investment and growth in others, and in still others no evident short-term macroeconomic spillovers. This book presents the findings of a World Bank research project designed to shed light on the complex dynamics of public sector deficits. It includes an in-depth examination of eight countries: Argentina, Chile, Colombia, Cote d'Ivoire, Ghana, Morocco, Pakistan, and Zimbabwe. These cases are analyzed within a comprehensive theoretical framework elaborated for the study and in conjunction with cross-country data from a larger set. The book draws the following conclusions. The ways chosen to finance deficits - money creation, debt, or arrears - go far to explain medium-term financial and macroeconomic imbalances, but in the short term these relations are blurred. Deficits tend to be bad for growth; they increase financial and price instability and crowd out private investment. Public saving typically reduces private saving only slightly; increasing public saving is a very effective policy instrument for raising national saving. Fiscal adjustment

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