



Fiscal responsibility and monetary policy

Stimulus Spending

Mariana Mazzucato:

I think that there's two reasons why Keynesian stimulus spending, if you want, has an impact also in the long run. Not only in the short run. The first is actually that there's some evidence that the multiplier, the Keynesian multiplier is actually higher when public spending is done in a directive way. So instead of just digging ditches and filling them back up again its spent on say, for example, in the 1990's as the US did on lots of money being spent on IT that actually tends to have a higher multiplier effect. Especially in the long run than simply spending for the sake of spending. And this is quite important because lots of the debate today about austerity versus stimulus spending I think is missing that point. That it's not spending for the sake of spending. It's spending on what type of economy do we actually want. And that requires a vision. It requires a strategic direction. And if you look at what China's doing, for example, today it's very strategic. And it's very directed. So they're planning on spending something like 1.5 trillion over the next five years in seven strategic new areas including alternative engines. Environmentally friendly technologies. Biotech. New generation IT. That kind of spending by the public sector tends to have long run growth benefits. Much higher than just simple spending.