

Prominent UC San Diego Economist Shows Spending More Valuable Than Tax Cut

January 30, 2009

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Nationally recognized UC San Diego macroeconomist Valerie A. Ramey has offered objective analysis on the major issue dividing Democrats and Republicans on how best to get the economy moving again. Her estimates show that a \$1 increase in government spending raises GDP by about \$1.40. These estimates are based on historical patterns during defense buildups in the post-World War II U.S. economy. On the other hand, she found little stimulus effect from the temporary tax rebate last spring. It appears that consumers used the rebates mostly to pay down debts and to increase savings.

All this comes just as the U.S. House of Representatives has passed a spending-heavy package without Republican support with the Senate poised to take up the matter beginning Monday, Feb. 2. Ramey's findings are bound to cause controversy because of the strong feelings surrounding this topic. Republicans have strongly favored tax cuts over spending. President Obama has taken the opposite view. The matter will come to national attention again beginning Monday, Feb. 2, when the package comes before the U. S. Senate.

Ramey's study is available as a downloadable PDF.

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