ASK AN ECONOMIST

Bill Dupor has been an economist at the Federal Reserve Bank of St. Louis since 2013. His research primarily focuses on how the government's purchases of goods and services affect the economy and monetary policy. When he isn't working, he enjoys spending time with his wife and three kids. For more of his research, see https://research.stlouisfed.org/econ/dupor.

Bill Dupor and his family.

Q: Does government spending stimulate the economy?

A: Economists hold two different views on whether government spending is an effective way to stimulate the economy. According to one view, purchases by the government cause a chain reaction of spending. That is, when the government buys $1 worth of goods and services, people who receive that $1 will save some of the money and spend the rest, and so on. This theory suggests that the "government spending multiplier" is greater than 1, meaning that the government's spending of $1 leads to an increase in gross domestic product (GDP) of more than $1.

The other view suggests that government spending may "crowd out" economic activity in the private sector. For example, government spending might be used to hire workers who would otherwise be employed in the private sector. As another example, if the government pays for its purchases by issuing debt, that debt could lead to a reduction in private investment (due to an increase in interest rates). In this case, the $1 increase in government spending leads to an increase in GDP of less than $1 because of the decline in private investment. Therefore, the government spending multiplier is less than 1.

My research focuses on disentangling these two conflicting views. One way to do this is by looking at changes in defense spending, which are caused by international geopolitical factors rather than short-term economic concerns. In a recent paper, my research analyst Rodrigo Guerrero and I examined the impact of defense spending on the U.S. economy in the post-World War II period.[1] Our results suggest that the multiplier is less than 1, meaning that the government spending causes some crowding out of private economic activity. In particular, we found that an additional $1 in defense spending leads to a reduction of about 50 cents from some other part of the economy.

Of course, economists also want to know if government spending is effective at stimulating the economy during a recession. To that end, I have studied the effects of the American Recovery and Reinvestment Act of 2009, with a primary focus on employment. My general finding is that the government was able to create jobs but at a fairly expensive cost. For example, in one study I worked on, I found that creating a job lasting one year cost the government about $100,000, whereas the median compensation for a U.S. worker was roughly $40,000.[2]

The overall takeaway from my research is that government spending does not seem to be a very cost-effective way to stimulate the economy and create jobs. However, economists have a lot more to learn on this topic.

[1] Dupor, Bill; and Guerrero, Rodrigo. Local and Aggregate Fiscal Policy Multipliers. Federal Reserve Bank of St. Louis Working Paper 2016-004C, June 2017.

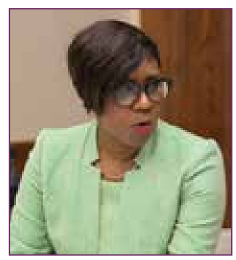
[2] Dupor, Bill; and Mehkari, M. Saif. The 2009 Recovery Act: Stimulus at the Extensive and Intensive Labor Margins. European Economic Review, June 2016, Vol. 85, pp. 208-28.

INVESTING IN LOCAL FOOD TO BOOST ECONOMIES

The St. Louis Fed has helped produce a new book that explores how the local food movement can be leveraged to improve the economies of low- and moderate-income communities, as well as their residents' health.

The book, Harvesting Opportunity: The Power of Regional Food System Investments to Transform Communities, includes 17 essays written by community development experts from around the country. Among the many topics covered: demand for local food, investing in regional food systems, sustainable food enterprises as a matter of national security, and bringing businesses to life through competitions, incubators and accelerators.

The St. Louis Fed has released the book in partnership with the Federal Reserve Board of Governors and the U.S. Department of Agriculture's agencies of Rural Development and the Agricultural Marketing Service. Read it at **www.stlouisfed.org/harvesting-opportunity.**



NEW PODCAST FEATURES HEAD OF ST. LOUIS FED BRANCH

The question "What does a Fed branch do?" is answered in the newest podcast in our Timely Topics series. Nikki Jackson, the head of the St. Louis Fed's Louisville, Ky., Branch, talks about her role, that of her staff and that of her board of directors. Listen to her describe the "aha moment" when people realize the variety of work that the Branch does, from gathering information on Main Street for monetary policymakers to supervising banks to encouraging community development in underserved areas.

Jackson, the child of civil-rights activists, also talks about diversity at the St. Louis Fed, where she is a member of the senior leadership team. This 18-minute podcast also touches on the Branch's upcoming centennial.

Listen to the podcast on iTunes, Stitcher or at www.stlouisfed.org/timely-topics.

We welcome letters to the editor, as well as questions for "Ask an Economist." You can submit them online at www.stlouisfed.org/re/letter or mail them to Subhayu Bandyopadhyay, editor, *The Regional Economist,* Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442.