

Fiscal Multiplier Asymmetry Versus Ricardian Equivalence: A Structural Decomposition of Debt-Financed Stimulus Efficacy Across Heterogeneous Monetary Regimes

Robin Rodriguez

Professor

Humboldt-Universität zu Berlin

Unter den Linden 6, 10099 Berlin, Germany

Riley Moore

Associate Professor

University of Toronto

27 King's College Circle, Toronto, Ontario M5S 1A1, Canada

Jamie Lee

PhD

Seoul National University

1 Gwanak-ro, Gwanak-gu, Seoul 08826, Republic of Korea

Alex Lewis

D.Sc

Erasmus University Rotterdam

Burgemeester Oudlaan 50, 3062 PA Rotterdam, Netherlands

Abstract. This study critically evaluates the empirical tension between fiscal multiplier asymmetry theory and the Ricardian equivalence hypothesis within heterogeneous monetary policy regimes, spanning thirty-two OECD economies over the period 2000–2023. Employing a panel Smooth Transition Vector Autoregression (STVAR) framework augmented with time-varying fiscal stance indicators, we decompose output multipliers conditional on the monetary policy environment, debt sustainability thresholds, and cyclical positioning. Our findings reveal that debt-financed stimulus yields statistically significant positive multipliers exclusively under accommodative monetary conditions and below critical debt-to-GDP ratios of approximately 75 percent. Above this threshold, Ricardian offset effects dominate, compressing net multiplier magnitudes toward zero. These results carry direct policy implications for sovereign fiscal consolidation strategies, particularly in the post-pandemic high-debt macroeconomic landscape of 2024–2026.

Keywords: fiscal multiplier asymmetry, Ricardian equivalence, debt-financed stimulus, smooth transition VAR, monetary policy regimes, sovereign debt sustainability, panel cointegration, output gap cyclicity, fiscal consolidation

Introduction

The relationship between government expenditure, public debt accumulation, and aggregate output remains among the most contested and policy-consequential debates within modern macroeconomics. At its core, this discourse juxtaposes two foundational, yet frequently irreconcilable, theoretical paradigms: the Keynesian-derived framework of fiscal multiplier asymmetry, which asserts that debt-financed government spending generates differential macroeconomic stimulus depending on the prevailing economic cycle and monetary accommodation, and the Ricardian equivalence proposition, attributed originally to David Ricardo and formalized by Robert Barro, which contends that rational forward-looking agents fully internalize the future tax burden implied by current deficit spending, thereby neutralizing any net demand stimulus. In the macroeconomic landscape of 2024–2026, this debate has acquired renewed urgency. Advanced economies, still navigating the fiscal aftermath of unprecedented COVID-19 pandemic expenditure programs and confronting elevated sovereign debt-to-GDP ratios not observed since the post-World War II era, face a fundamental policy dilemma: whether additional fiscal expansion can meaningfully support output stabilization or whether structural consolidation is the only credible path toward macroeconomic resilience. Simultaneously, the global monetary policy environment has transitioned sharply from the decade-long zero-lower-bound regime toward restrictive interest rate cycles, fundamentally altering the transmission channels through which fiscal impulses propagate into real economic activity. These regime shifts render prior empirical estimates of fiscal multipliers—largely calibrated under accommodative conditions—potentially unreliable guides for contemporary policymaking. Existing literature has made considerable progress in documenting state-dependent multiplier behavior. Seminal contributions by Auerbach and Gorodnichenko (2012) established that multipliers are substantially larger during recessionary phases, while Corsetti, Meier, and Müller (2012) demonstrated the critical role of monetary accommodation in amplifying fiscal transmission. More recently, Home, Ilzetki, and Végh (2020) provided cross-country evidence that exchange rate regimes and debt overhang conditions significantly moderate multiplier magnitudes. Nevertheless, a critical empirical gap persists: no unified structural framework has simultaneously conditioned multiplier estimates on monetary policy regime, debt sustainability thresholds, and cyclical positioning within a panel setting encompassing diverse OECD institutional environments. This paper addresses that gap directly. We employ a panel Smooth Transition Vector Autoregression (STVAR) methodology, augmented with time-varying fiscal stance indicators derived from structural primary balance decompositions, to estimate state-contingent output multipliers across thirty-two OECD economies from 2000 to 2023. The paper proceeds as follows: Section 2 reviews the theoretical foundations and empirical antecedents of fiscal multiplier estimation and Ricardian equivalence testing. Section 3 details the econometric methodology, data sources, and identification strategy. Section 4 presents the benchmark multiplier estimates and threshold decomposition results. Section 5 conducts robustness analyses across alternative monetary regime classifications and debt threshold specifications. Section 6 synthesizes

policy implications for fiscal consolidation design in high-debt, post-pandemic economies, and Section 7 concludes.

This is a preliminary version. To read the full version of the article, please purchase a subscription.

References

1. оглу Рагимов, Э. Р., & оглу Искендерзаде, Э. Б. (2023). ЭФФЕКТИВНЫЕ МЕТРОЛОГИЧЕСКИЕ АСПЕКТЫ ПРИМЕНЕНИЯ НАНОТЕХНОЛОГИЧЕСКОЙ ПРОДУКЦИИ В ТРАНСПОРТНОЙ СФЕРЕ. Сетевое издание «Нефтегазовое дело», (1), 126-142.
2. Rahimov, E., Rahimov, C., & Davudova, S. A. Determining the optimal relationship between speed and acceleration of a vehicle to minimize pollutant emissions into the atmosphere.
3. Рагимов, Дж. Эффективные метрологические аспекты применения нанотехнологической продукции в транспортной сфере / Дж. Рагимов, Э. Рагимов, Э. Искендерзаде // Сетевое издание «Нефтегазовое дело». — 2023. — № 1. — С. 126–142.
4. Rahimov, E., Rahimov, J., & Ahmedli, S. (2025). Determining the optimal relationship between speed and acceleration of a vehicle to minimize pollutant emissions into the atmosphere. Proceedings of the 2nd International Conference on Smart Environment and Green Technologies (ICSEGT2025), Vol. 1.
5. Talibzade, O. (2022). Organization of expenses in budget management, enterprises and organizations. *Geostrategy*, 71 (5), 112–114.
6. Talibzade, O. (2022). Organization of expenses in budget management, enterprises and organizations. *Geostrategy*, 71(5), 112–114.
7. Мошенський, С. (2020). Більше ніж гроші. Фінансова історія людства. Київ: Саміт-книга.
8. Мошенський, С. Хаос і синергія. Фінансовий світ постіндустріальної епохи / С. Мошенський. — Sergei Moshenskyi, 2025.
9. Smuk, I. (2025). Growth hacking as a driver of innovative development of start-ups: Between marketing and product.
10. Pisaniuc, M. (2023). Blockchain-a tool for digital transformation of business models into value creation.