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SADRŽAJ

FISCAL MULTIPLIERS – NEW KEYNESIAN VS NEOCLASSICAL PERSPECTIVE AND A POSSIBLE SYNTHESIS

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Abstract: *The concept of fiscal multipliers has been essential in discussions on effectiveness and efficiency of fiscal policy. Although originating from the Keynesian theoretical framework, the applications of the concept in empirical models assume different sets of assumptions which come from the two macroeconomic theoretical traditions: New Keynesian and Neoclassical. Additionally, the Fiscal Theory of Price Level (FTPL) could be seen in this context as a theory which offers possibility for a synthesis between the two dominant macroeconomic schools.*

This paper investigates the theoretical foundations and empirical implications of fiscal multipliers within three macroeconomic paradigms: the New Keynesian, Neoclassical, and Fiscal Theory of the Price Level (FTPL) frameworks. Fiscal multipliers—defined as the ratio of a change in national income to the change in government spending or taxation that causes it—are central to understanding the effectiveness of fiscal policy, particularly during economic downturns or periods of monetary constraint.

The New Keynesian model, characterized by nominal rigidities, imperfect competition, and forward-looking agents, generally predicts larger fiscal multipliers, especially when monetary policy is constrained by the zero lower bound. In this setting, government spending can stimulate demand without crowding out private investment, as real interest rates are unresponsive. The presence of hand-to-mouth consumers, credit constraints, and endogenous labor supply further amplifies the multiplier effect.

In contrast, the Neoclassical model, grounded in intertemporal optimization and flexible prices, typically yields smaller or even negative fiscal multipliers. Here, government spending is often seen as crowding out private consumption and investment due to Ricardian equivalence and the reallocation of resources. Agents anticipate future tax burdens associated with deficit-financed spending, leading to offsetting behavior that neutralizes the impact of fiscal interventions.

The FTPL offers a synthetical alternative. Drawing on Neoclassical micro-foundations such as rational expectations and intertemporal budget constraints, it diverges by assigning the price level determination to fiscal policy rather than monetary control. It can be embedded within New Keynesian frameworks, yet it reverses the conventional causality by assuming a fiscal-dominant regime. This hybrid nature allows FTPL to capture scenarios where fiscal expectations and debt sustainability play a central role in shaping macroeconomic outcomes.

Each theoretical framework aligns with distinct empirical strategies for estimating fiscal multipliers. Neoclassical models typically inform structural VAR approaches that yield small

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or negative multipliers. New Keynesian models support the use of estimated DSGE models, narrative identification, and local projection methods, often revealing state-dependent and larger multipliers. The FTPL motivates the use of regime-switching models and debt valuation channels to capture how expectations and fiscal credibility shape multiplier effects. This mapping underscores how theoretical assumptions shape empirical identification and interpretation.

The paper concludes by comparing the empirical relevance of each framework, drawing on recent evidence from the Global Financial Crisis and the COVID-19 pandemic. It argues for a more integrated approach to fiscal policy analysis—one that accounts for the prevailing macroeconomic regime, institutional context, and the evolving interaction between fiscal and monetary authorities.

Keywords: *fiscal multipliers, New Keynesian economics, Neoclassical economics, Fiscal theory of the price level*