Transfer Multiplier and Policy Regimes

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Abstract

This paper studies an impact of transfer payments on macroeconomic activity of the US economy during the periods of 1954:1979 and 1985:2007. In a standard structural VAR, there is a positive statistically significant response of output and inflation to a transfer shock in the pre-Volcker period. However, the impact becomes insignificant in the post-Volcker sample. A switch from a non-Ricardian regime, where inflation moves to stabilize government debt, to a Ricardian, where the Central Bank controls inflation, explains this difference in transfer multipliers. This indicates that the US economy did experience a change in the monetary/fiscal policy mix in the early 80s.

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