

Growth-Enhancing Fiscal Policy

Spending Better, Raising Multipliers, and Preserving Fiscal Credibility

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June 10, 2026

Disclaimer: The views expressed are solely one of the author and do not reflect the view of the organization to which the author belong.

Fiscal Policy Under Fiscal Pressure

✓ Rising spending pressures

- Aging • Climate and energy transition • Digital and AI investment • Security and resilience
- Interest payments

✓ Limited fiscal space

- High debt • Tighter financing conditions • Greater demand for fiscal credibility

✓ Key question: How can fiscal policy generate more growth per fiscal dollar?

Growth-enhancing fiscal policy is not just about choosing high-return spending. It is about building the conditions that make public resources high-return.

Public Investment and Productive Spending

- ✓ **Public investment is the natural starting point**
 - Supports demand in the short run
 - Builds productive public capital in the long run
- ✓ **Empirical evidence supports sizable output effects**
 - Aschauer, 1989; IMF, 2014; Abiad et al., 2016; Furceri and Li, 2017; Miyamoto et al., 2020
- ✓ **But composition also matters**
 - Long-run effects vary across spending categories
 - Public R&D can raise innovation, productivity, private investment, and GDP (Yoshino et al., 2024; Antolín-Díaz and Surico, 2025).
 - Human capital and innovation-related spending can also expand future capacity
- ✓ **And composition is not enough...**

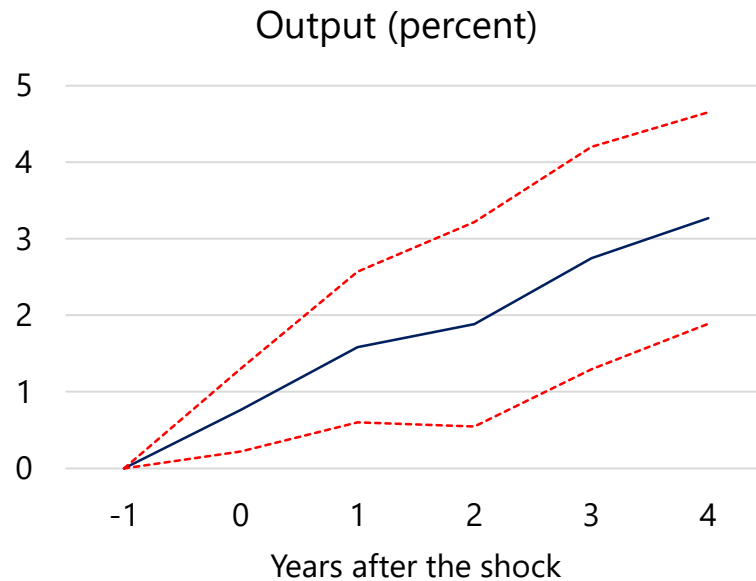
Public Investment Multipliers

- ✓ Public investment multiplier are used in a dynamic sense:
 - Not only short-run demand effect, but also medium- and long-run output effects of fiscal policy.
- ✓ For growth-enhancing fiscal policy, it is a measure of whether public spending becomes productive capacity.
- ✓ Multipliers depend on both macroeconomic conditions and structure.

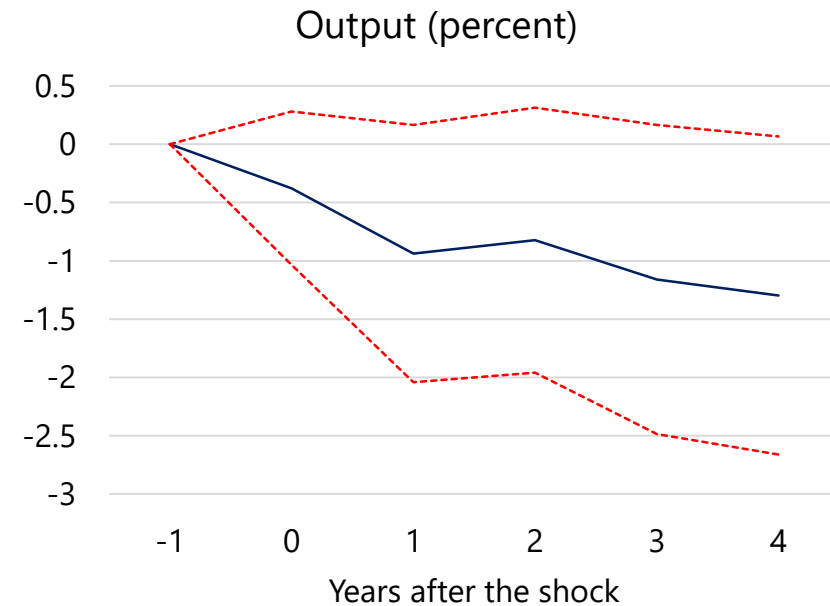
Determinants	Make FMs larger	Reference
State of the business cycle	Recession	Auerbach and Gorodnichenko (2012, 2013)
Public Debt	Low	Kirchner at al. (2010); Huidrom et al. (2020)
Demography	Young	Basso and Rachedi (2021); Honda and Miyamoto (2021), Miyamoto and Yoshino (2022)
Institution quality	High	IMF (2014, 2020)
Labor market flexibility	High	Cacciatore et al. (2021); Kuo and Miyamoto (2023, 2026)

Infrastructure Governance Systems Matter

Better governance

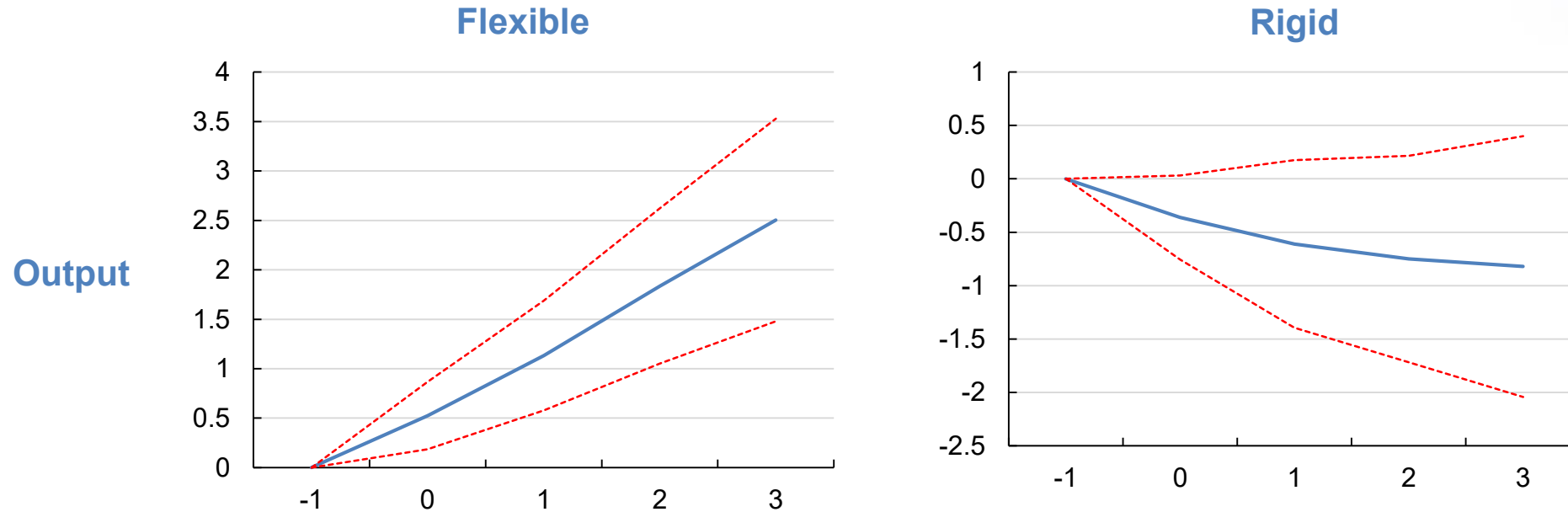


Weaker governance



Note: $t=0$ is the year of the shock. Solid lines present the responses to an unanticipated increase in public investment of 1 percent of GDP. Dashed lines denote 90 percent confidence bands.

Labor-Market Fluidity Raises Fiscal Transmission



Source: Kuo and Miyamoto (2023)

- ✔ Public investment, R&D, and AI investment create new opportunities.
- ✔ Labor-market fluidity determines whether workers and firms can move toward those opportunities.
- ✔ Reskilling, mobility, and firm dynamism are complements to growth-enhancing fiscal policy.

Financing, Debt, and Fiscal Credibility

- ✓ **Growth-enhancing fiscal policy must be financed credibly**
- ✓ **Financing shapes the multiplier**
 - The financing mix affects incentives, demand, distribution, and credibility.
 - Tax design can change the macroeconomic effect of government spending Ferriere and Navarro (2025)
- ✓ **Debt also shapes the multiplier**
 - Weak fiscal positions can reduce the effectiveness of fiscal policy (Huidrom et al., 2020)
- ✓ **Credible financing supports debt sustainability and confidence**

Credible financing does not just fund growth-enhancing fiscal policy. It helps make fiscal policy growth-enhancing.

Conclusion & Main Lessons

Growth-enhancing fiscal policy requires three things

Spend better

- Protect high-return public investment
- Support R&D, innovation, and human capital
- Reduce low-return spending and inefficient subsidies

Raise transmission

- Strengthen infrastructure governance
- Improve implementation capacity
- Enhance labor-market fluidity

Finance credibly

- Mobilize revenue efficiently.
- Anchor debt sustainability through a medium-term framework.
- Protect productive spending (safeguard public investment, R&D, and human capital) during consolidation.

Governments should not only search for high-multiplier spending. They should build the conditions that make public resources high-multiplier.