

AUSTERITY OR STIMULUS: WHICH IS THE BETTER CURE FOR RECESSION?

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ABSTRACT

Since the 1980s, neoclassical thinking on political economy has been vested with a sense of optimism and expectation. Neoclassical economists have been the principal proponents of the hypothesis that austerity in a severe recession will lead to bona fide economic prosperity. However, their critics have argued that economic growth via austerity measures promoted by neoclassical theorists is merely a mirage and does not lead the economy anywhere but into an abyss. Opponents, who most often are Keynesian economists, advocate tax and public spending actions (stimulus expenditures) in a quest to reverse the deep decline that has devastated the U.S. middleclass. Adversaries deem neoclassical ideas as mythical logic and point to its ideology of free market economics and corporatization as having been detrimental to the well-being of America's middleclass. In this paper, we start with the Reinhart and Rogoff (2010) study "Growth in the Time of Debt" to present pro and con arguments, while drawing attention to the neoclassical advocacy of austerity versus the Keynesian proposition pertaining to increased taxes, public spending and economic growth.

Keywords: *Stimulus, Austerity, Corporatization, Public Spending, Economic Growth*