

When the Global Financial Crisis hit in years 2008-2009 and the main tool of macroeconomic stabilization used by central banks in advanced economies in the pre-crisis era - nominal interest rate - fell close to its lower bound, policymakers sought alternative measures to spur recovery. In that situation fiscal policy seemed to be a solution but researchers that tried to forecast the expected impact of fiscal stimulus packages and to design them to maximize their effectiveness faced a daunting task because not only was there no scientific consensus about the estimated effects of using such measures but also that fiscal policy as a research topic had been neglected since 1960s. This, together with a large magnitude of fiscal stimulus packages that amounted to a significant proportion of GDP (both during the Global Financial Crisis of 2008-2009 and the economic downturn related to the COVID-19 pandemic), led to a rise in the interest in fiscal policy as a research topic.

Numerous works studied the determinants of the effectiveness of expansionary fiscal policy and found evidence that its outcomes are more powerful in recessions than in booms and when the economy is in a liquidity trap. Moreover, as a result of this research, a new framework for studying the effects of economic policy was developed: the Heterogeneous Agent New Keynesian model (the so-called HANK). It is capable of mimicking the key features of the demand block of the economy (e.g. the level of the marginal propensity to consume and the inequality of households across consumption, income and wealth) in a realistic way and thus it is well-suited to quantify the multiplier mechanisms related to stimulus packages and their distributional effects.

While there is a voluminous literature that uses HANK model to estimate the effects of various fiscal policy measures (government spending, transfers, taxation and unemployment benefits), relatively little attention has been paid to apply that framework for quantifying the relationship between the sources of fiscal stimuli financing (such as: type of tax, its progressivity and repayment scheme associated with public debt issued to finance additional government expenditures) and their effectiveness. This almost literal dearth of research on that topic is surprising given that the fact that taxation affects economic activity is widely acknowledged by economists and therefore one could expect a significant impact of financing sources of stimulus packages on their effectiveness. In the proposed research project we aim at using the HANK framework for studying how the size of government spending multiplier depends on the type, the progressivity and the timing of taxes levied to cover expansionary fiscal policy. Moreover, our goal is to analyze how the sources of financing of government spending affect the role of countercyclical fiscal policy in stabilizing economic fluctuations.

The results of our research project will shed a new light on the determinants of effective fiscal policy and on the impact of fiscal stimulus packages on wealth, consumption and income inequality. They will be an important contribution to the literature on the macroeconomic effects of fiscal policy and to a fast-growing subfield using heterogeneous agent models for studying aggregate and distributional consequences of government policies.