Stabilization Policies, Capital Accumulation, and Business Cycles

Hajime Hori
Soka University and Tohoku University

November 3, 2012

Abstract

The performance of stabilization policies in a growing economy is analyzed using a variant of monetary growth models with sticky nominal wage rates. Stabilization policies analyzed are feedback policy rules which are expansionary when the rate of employment is lower than the target rate and vice versa. It is found that fiscal stabilization policies can be destabilizing if operated too intensively. The source of this difficulty is traced to their interference with capital accumulation due to the crowding-out effect. The paper omits the consideration of inflation and inflation expectations, in order to focus on the role of capital accumulation in the process of business cycles.