

Endogenous Local Government Spending and Fiscal Multipliers in a Metropolitan Input-Output System

Topic: Regional Input-Output Modeling

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This paper explores the role of endogenous fiscal stimulus in local economies originating from regional and macroeconomic performance. Endogeneity of government spending is captured in an extended inter-regional input-output framework closed not only for households but also for local governments. We look at output and consumption effects and compare the results with typical government spending multipliers computed elsewhere. This strategy reveals a different perspective on potential local responses to changes in regional and national business cycles. Moreover, by examining the interdependence of local tax revenue, income formation and output generation, we provide insights into the extent and limits of tax competition in an integrated system. We use as the case study the Sao Paulo Metropolitan Area, considering its 39 municipalities as individual regions of the model.