The Greek “IMF Multiplier” Case: A Hayekian critique of accurate predictions in crisis environments and their political usage.

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Abstract

In IMF’s Working Paper Growth Forecast Errors and Fiscal Multipliers (January 2013) economists Olivier Blanchard and Daniel Leigh suggested that during the recent financial crisis “in advanced economies, stronger planned fiscal consolidation has been associated with lower growth than expected, with the relation being particularly strong, both statistically and economically, early in the crisis. A natural interpretation is that fiscal multipliers were substantially higher than implicitly assumed by forecasters”. Since then, similar arguments have been put forth by economists associated with the IMF.

Against the backdrop of Greece’s poor economic performance since the beginning of the crisis, this has been widely interpreted by the “anti-memorandum”, anti-austerity camp in Greece as an admission of an error that has had grave negative implications both for the Greek economy and for its populace at large. These groups have since been using heavily the “IMF Multiplier” argument against the implemented stability and recovery programmes in bulk.

The aim of the proposed paper is twofold:

First, to reformulate a Hayekian methodological critique against the assumption that an adequately accurate and reliable macroeconomic prediction is feasible, especially in a crisis environment where the problem of successfully modeling an already complex set of interconnected factors in order to produce explanations and predictions is exacerbated by the radical change of the relations between critical parameters.

Second, in a similar Hayekian vein, to highlight the IMF fiscal multiplier case as an example of the political usage of macroeconomic performance prediction tools, as it provides clear insights about the interplay of the specific interest functions and power relations of all the numerous agents that have been affecting policy decisions in Greece during the ongoing crisis period. Its usage as a policy implementation facilitator, a normative yardstick, and a means of legitimizing (as well as delegitimizing) specific policy choices can
illustrate critically both the strengths and the weaknesses of this practice.