A Sensitivity Analysis of the Growth-Debt Nexus: Revisiting Reinhart and Rogoff

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Abstract

A vast and growing empirical literature aims at identifying the links between economic growth and public debt. The literature is extensive and controversial. Can policy-makers use this body of research to learn anything about the growth-debt nexus? We revisit the Reinhart-Rogoff (RR) hypothesis, on any plausible association between growth and debt, through the lens of Extreme Bound Analyses (EBA) to examine its sensitivity to small changes in the conditioning information set. Our EBA, spanning the relevant RR panel of 20 advanced countries over the period 1946–2009, confirms that the bivariate correlations between economic growth and public debt are fragile.

Key Words: Public Debt, Economic Growth, Austerity, Extreme Bound Analysis, Panel Macro-econometrics.

“Reinhart-Rogoff may have had more immediate influence on public debate than any previous paper in the history of economics.”

Paul Krugman (2013)