Estimating the Effects of Fiscal Policy in OECD Countries

comments by Alan Auerbach

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Outline

- What Perotti finds
- Evaluation of methodology
- More detailed points
- Concluding comments

Summary of Results

- Uses SVAR methodology developed by Blanchard-Perotti (2002) to estimate effects of government expenditures and revenues for 5 OECD countries, allowing for a structural break in 1980.
- Spending increases and tax cuts have smaller multipliers in the post-1980 period.
  - a larger interest rate response contributes to this
  - but other things going on; paper looks at changes in credit markets

Summary of Results

- Multipliers smaller than those in macroeconometric models.
- Taxes and spending have different impulse responses.
  - they shouldn't be aggregated in models
  - no evidence that taxes work more quickly
- Presumably, the same argument for disaggregation applies to types of taxes and types of public spending, but not explored here.

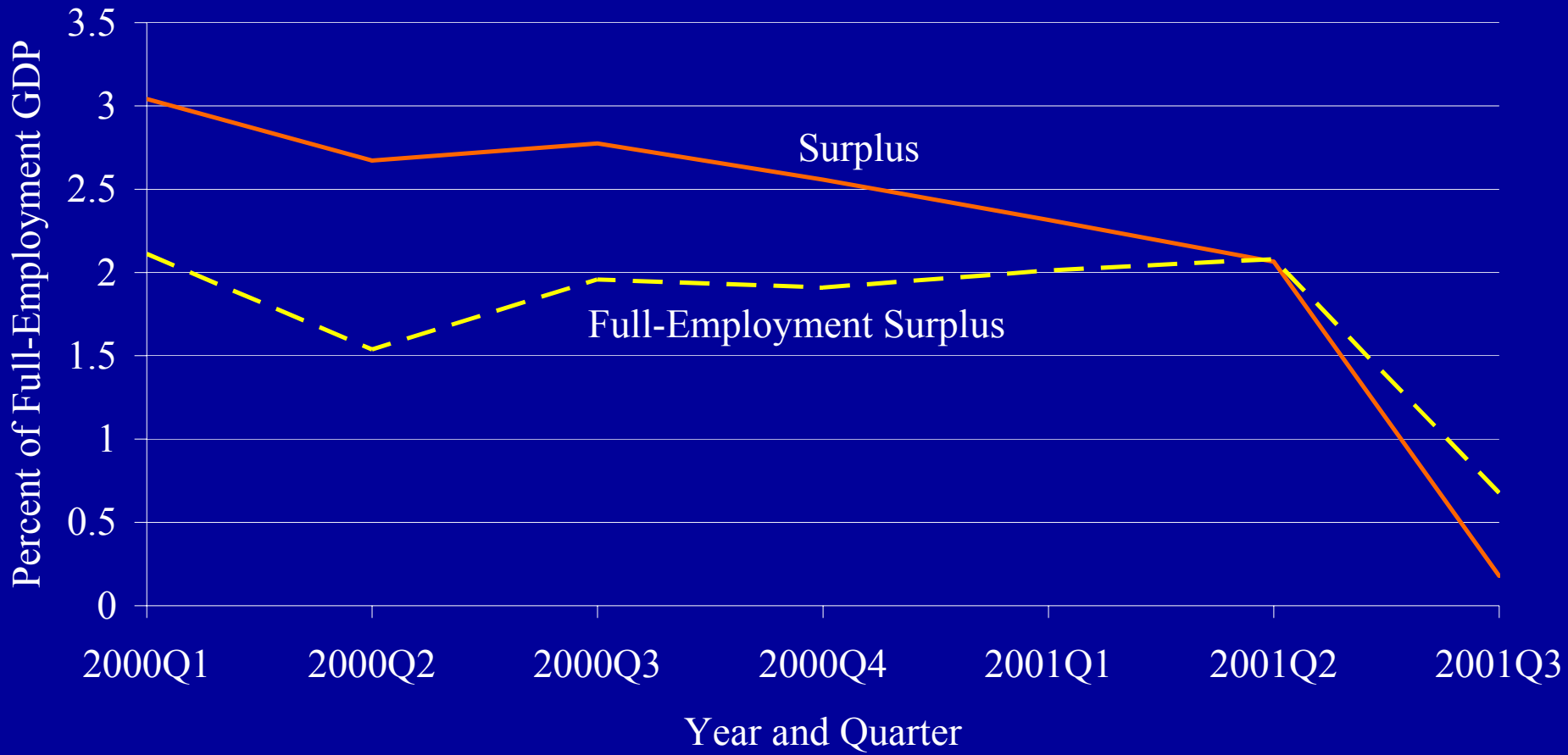
Summary of Results

- Decline in variance of GDP between sub-periods can be traced to decline in fiscal shock variances and changes in transmission mechanism.
- But Lucas critique applies to such calculations, as the paper notes.

Evaluation of Methodology

- What do quarterly shocks represent?
- Are they policy changes?
- Are they unanticipated?

The Budget Surplus and September 11



Are Shocks Predictable?

- Table 3: not really, using OECD forecasts.
- But…

Are Shocks Predictable?

Dependent Variable:	REVN		EXPN		GDP	
Constant	0.116	(1.018)	0.365	(5.179)	0.834	(4.095)
DUMMY	-0.001	(-1.334)	0.000	(0.565)	0.000	(-0.043)
REVN{1}	1.000	(5.668)	-0.109	(-1.005)	0.635	(2.024)
REVN{2}	-0.197	(-1.113)	0.018	(0.166)	-0.365	(-1.161)
EXPN{1}	-0.721	(-2.496)	0.435	(2.444)	-1.201	(-2.335)
EXPN{2}	0.303	(1.286)	-0.193	(-1.331)	0.445	(1.061)
GDP{1}	0.442	(4.303)	-0.089	(-1.409)	1.247	(6.816)
GDP{2}	-0.448	(-3.755)	-0.128	(-1.742)	-1.004	(-4.726)
UREVNP_LEG	0.365	(2.595)	-0.086	(-0.993)	-0.524	(-2.090)
UEXPNP_LEG	0.144	(1.462)	-0.156	(-2.573)	-0.398	(-2.270)

Period: 1988:2 - 2004:2; t-statistics in parentheses

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More Detailed Points

- Table 1: mean absolute changes in CBO forecasts in February and August
  - more spending changes between August and February; more revenue changes between February and August
  - note: CBO data incorporate legislation; ignore President's budget
- Should look at legislative changes, not total changes.

More Detailed Points

- Price elasticity of net taxes (Table 5) in the neighborhood of 1.0.
- Shouldn’t these be close to 0.0, given that taxes are defined in real terms?
- Discussion on page 47 hard to follow.

Wrapping Up

- Unclear extent to which innovations represent policy shocks.
- Even if they do, we can't use properties of these shocks or coefficients to assess stabilization performance.
- Analysis very much applies to sample-period policy environment.
  - don't use to evaluate debt-financed social security privatization!