

# Favero, Giavazzi & Peregò “Country Heterogeneity and the International Evidence on Effects of Fiscal Policy”

– A Discussion –

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June 2011

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- Much of the paper, however, instead asks: **“How can you estimate the impact of exogenous fiscal policy shocks using panel data”**

- They estimate:

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  - debt may carry important information about the shocks

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- but that would imply a quite different model with MA-structure in the shocks and debt in the vector of observables

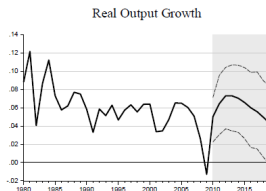
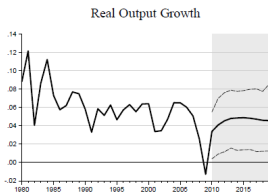
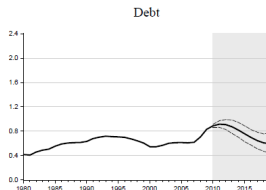
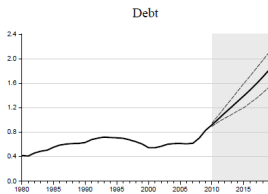
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- both could be questioned



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  - 2 Quality of the narrative
  - 3 Scaling of the shocks and the interpretation of impulse responses

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- $\varepsilon_{i,t}^g$  and  $\varepsilon_{i,t}^T$ : “tax increases and spending cuts implemented to reduce the budget deficit and put public debt on a sustainable path”
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- Violations of 1 and 3 is not easy to deal with and it seems likely that it could be a problem - there might potentially be endogeneity biases

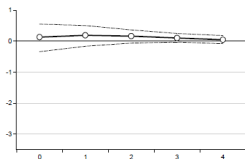
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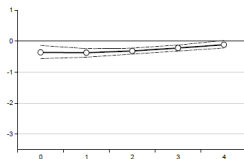
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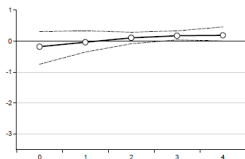
Belgium



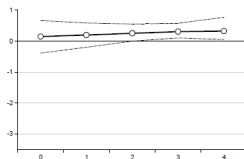
Italy



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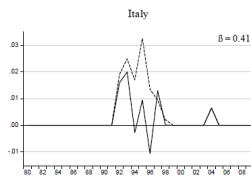
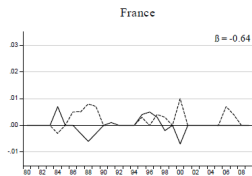
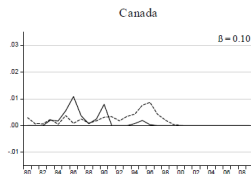
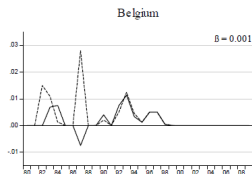
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- Both of these papers estimate tax multipliers and find significantly bigger estimates when accounting for attenuation biases

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- Such scaling problems likely to be one cause of heterogeneity

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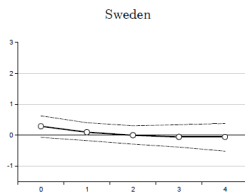
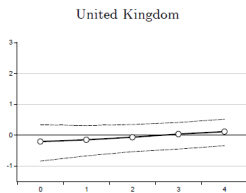
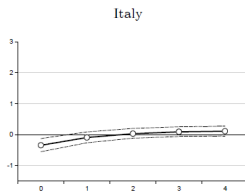
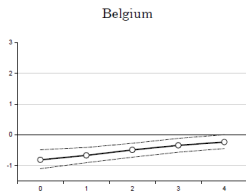
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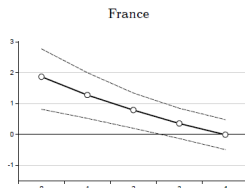
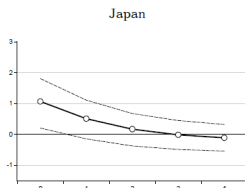
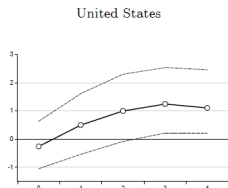
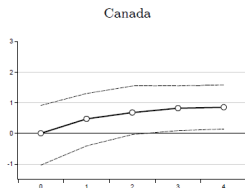
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- I am looking forward to further progress on the topic