

How Big (Small) Are Fiscal Multipliers?

Comments

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Fiscal Multipliers

- Key policy question
- Large academic literature but with conflicting results
- This paper applies SVAR techniques to a new data set with a large sample of countries. The paper contributes on two dimensions:
 - Estimating the size of fiscal policy multipliers in countries other than the US.
 - Analyzing differences among groups in order to better understand transmission channel (and links to theory)

Fiscal multipliers and policy

- Academic literature focuses on the “least interesting” fiscal policy changes
- We care about the effect of countercyclical fiscal policy in times when is needed (recessions) not so much about the effect of unpredictable changes in fiscal policy (or fiscal policy at times of wars)
- There is the potential for a downward bias if we what we call fiscal policy shocks is the fiscal policy reaction to bad (negative) GDP shocks

Lack of consensus

- Estimated multipliers vary from -2 to +3.
- Although there is some degree of consensus in US data: earlier SVAR papers + newer papers*: Multipliers tend to fall in a narrower range of 1.3-1.8
- Smaller multipliers linked to different methodologies and different ways of measuring timing**
- What about other countries? Indirect evidence of multiplier calculated using estimates of effectiveness of automatic fiscal policy changes in a cross-section of OECD countries: around 1.8***
- What about a broader sample of countries using SVAR methodology? (this paper)

* Acconcia, Corsetti, Simonelli (2011); ** Ramey (2009), Perotti (2007); *** Fatás (2009).

Beyond “average” multipliers

- Most papers estimate average multipliers (over a sample). But we expect multipliers to vary in different circumstances
 - Higher when output is below potential (Almunia, Bénétrix, Eichengreen, O’Rourke and Rua (2009); Auerbach and Gorodnichenko (2010).)
 - Lower when debt is high (Favero and Giavazzi (2007) and this paper)
 - Higher when monetary policy is more accommodative (fixed exchange rates in the Mundell Fleming model) (this paper)
 - ...

The size of the multiplier (this paper)

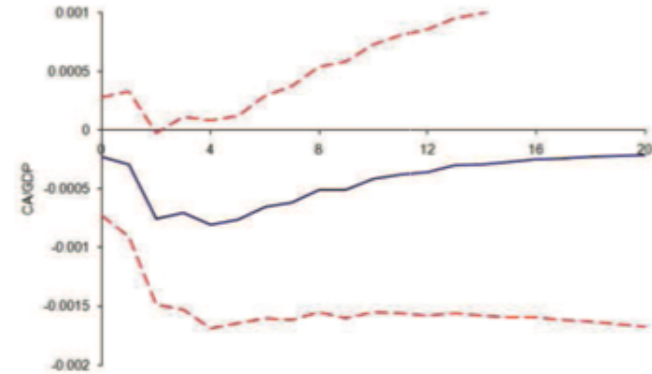
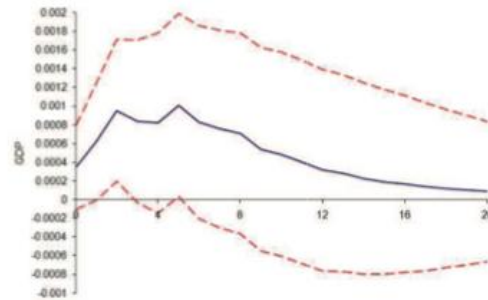
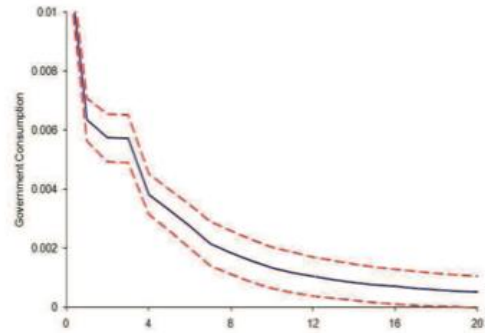
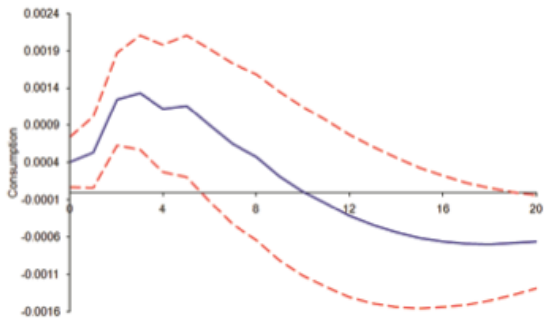
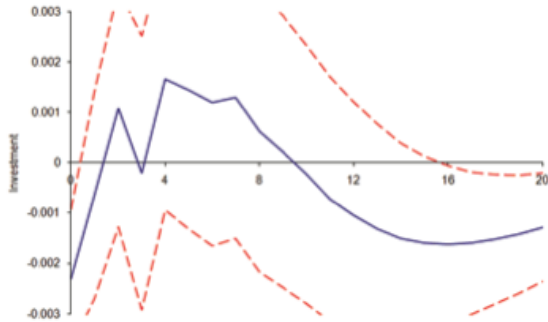
- Small compared to previous (US) results
- Why?
 - Countries other than the US. But what is different about these countries?
 - Different exchange rate regime? Not obvious as the US is a flexible exchange rate system and the country where higher multipliers have been estimated
 - Different sample? For the majority of the countries the sample covers 10 years without a recession (are we estimating exogenous changes in fiscal policy only in good times)
 - Data? (next slide)
- Larger in the long run (fixed exch. rates: 0.09 versus 1.5). Why GDP reacts with a such lag in this sample?

Data?

- Quarterly data? Source? Interpolated? Accrual versus cash?
- Volatility? Why is government consumption so volatile? (paper tomorrow $\text{Var}(\Delta \log(G)) / \text{Var}(\Delta \log(\text{GDP})) = 0.07$ – in this paper: 5.31)
- Source of data, same as GDP? Does the national account identity hold? It needs to hold to talk about multipliers and compare to other results (we know that timing is important, Ramey (2009))

GDP=C+I+G+NX??

Fixed



Impact multiplier using GDP= 0.09; using components of GDP=0.87 (if I looked at the right charts)

Differences in Multipliers

- Multipliers are larger for closed economies, governments with low debt as well as flexible exchange rate regimes
- Consistent with theory
- Transmission mechanism for low multipliers under flexible exchange rate regimes: interest rate. Behavior of REER or current account noisier and not as consistent with theory.
- Are there other (omitted) factors? Response of taxes? Persistence? (we normally study cross-section data in a multivariate regression)

Summary

- Nice addition to the literature: larger and more diverse sample of countries and interesting results regarding transmission of fiscal policy shocks (e.g. interest rate and exchange rate regime, debt) which are consistent with theory
- Concerns with overall size of estimated multipliers and the difference between impact and long-run. Is the sample/data special?