COMMENT TO
"WHEN DOES IT PAY TO TAX? EVIDENCE FROM STATE-DEPENDENT FISCAL MULTIPLIERS IN THE EURO AREA"
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The objective of the paper is to estimate a set of fiscal multipliers for a panel of 17 Euro-area countries for the period 2004-11 employing several alternative techniques, namely (i) changes in the structural primary balance; (ii) the IMF narrative shocks approach (Devries *et al.*, 2011); and (ii) the VAR-based measure of unanticipated policy announcements.

According to the results, aggregate fiscal multipliers reach the value of about 0.5. However, there is a large variation in multipliers, whose values depend, for example, on economic stance (higher multipliers during recessions), openness (lower multipliers for more open economies), the share of hand-to-mouth consumers (the higher the share, the higher the multipliers), and the policy mix.

The main contributions of the paper are the following:

1) Obtaining the estimates of fiscal multipliers *combining* the alternative approaches of two types, which are based on the assumption of:
   a) Exogenous fiscal shocks. The underlying techniques are based on the changes in the structural primary balance and the IMF narrative shocks approach (Devries *et al.*, 2011).
   b) Endogenous fiscal shocks. The associated method is the VAR with unanticipated policy announcements.
2) Addressing non-linearities, such dependence of multipliers on the economy openness (open vs. closed economy) and the business cycle stance (expansion vs. recession).
3) Focus on the estimates for the Euro Area aggregate and an illustration/derivation of the multipliers for Greece.

General comments and suggestions

The paper demonstrates that there could be benefits of combining several alternative approaches to derive the values of fiscal multipliers. Extensive robustness checks are provided. The results are, in general, intuitive.

A first suggestion would be to compare the results of this paper with the rich literature on fiscal multipliers and to discuss what is similar, what is new. To facilitate this comparison, the authors might consult a summary of 89 studies on fiscal multipliers provided by Gechert and Will (2012). Using meta-analysis techniques, Gechert and Will (2012) report similar results regarding the role of openness, economic stance, the share of hand-to-mouse consumers, etc. However, their meta analysis allows concluding another key insight, which goes beyond the scope of the current study: dependence of fiscal multipliers on the setting and the method chosen, e.g., empirical estimates vs. multipliers derived from DSGE models.

Second, results of the paper regarding the role of the policy mix could/should also be compared with the existing literature. For example, another meta-analysis by Gecher (2013) provides a very informative review of 104 studies on multiplier effects. The author presents rich

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evidence on how the values of multipliers depend on the choice of fiscal categories, such as public spending, tax and transfers, public investment, etc.

Third, regarding the estimation method, it might be useful to perform several more checks:

- Poolability tests: Is the group of 17 Euro Area countries a homogeneous “poolable” sample? Member countries evidently differ in, for example, the degree of openness.
- Consider weighting schemes (for example, by GDP), in order to avoid a situation that the exclusion of e.g. Estonia significantly affects estimates for the entire Euro Area aggregate (which is currently the case).
- Perform residuals checks: The estimated equations (Tables 1-3) are somewhat “too good to believe”: most of the repressors are significant at 1 per cent, which might suggest the presence of influential outliers.

Fourth, on the conceptual side, it would be worth discussing the applicability of the assumption of exogenous fiscal shocks (including the narrative approach) to small open economies, which is relevant to the Euro Area member countries. While the assumption of exogenous fiscal shocks is, in general, relevant for a large (stable) economy, which is hit by relatively rare fiscal shocks, the situation for small open economies is different. Those economies are almost continuously hit by shocks. Some of these shocks (e.g., to spending/taxes) are not always exogenous, but might represent a result of another factors (external shocks) and eventually also a (quite frequently) changing legislation.

REFERENCES

Gechert, S. (2013), "What Fiscal Policy is Most Effective? A Meta Regression Analysis", Macroeconomic Policy Institute, Working Paper, No. 117.

Gechert, S. and H. Will (2012), "Fiscal Multipliers: A Meta Regression Analysis", Macroeconomic Policy Institute, Working Paper, No. 97.