COMMENTS ON SESSION I: INDICATORS OF FISCAL IMPACT

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The five papers in this section provide a sample of the wide range of empirical work that is excited by the concerns of fiscal policy today.

The paper by *Momigliano and Siviero* uses the methodology introduced by Blinder and Goldfield (1976) to measure the effects of fiscal policy using a large macroeconometric model. That methodology has a number of advantages when compared to the widely-used "summary indicators" of fiscal policy. In particular, it renders measures of fiscal policy on a wide range of variables and is precise about timing. The methodology can be adapted to cope with forward-looking elements, when the measures of fiscal impact obtained can be further characterized as representing "unanticipated" and "anticipated" policy effects (Artis *et al.*, 1994) though this is not done here. The methodology necessarily suffers from all the drawbacks alleged of large macroeconometric models, although there are no obvious alternatives usable at present. In addition, it is clear that the counterfactual description of the fiscal action, which engages the model's dynamic multipliers is a source of concern especially taken the horizon is a long one. The mechanical application of these methods provides a geology of fiscal actions in which (say) the fiscal actions of Italy's First World War governments would still today provide a distinct layer! Thus the authors are right to be cautious about the horizon they examine; yet at the same time they may be missing much of the action: the effects of this year's fiscal actions are quite likely to bulk large next year. The kind of work embodied in this paper is detailed and exhaustive; yet it would have been nice also to have seen an extension demonstrating that the model is worthy of this investment. What kind of tracking performance does it possess?

The paper by *Mohr* demonstrates the potential of one of the main alternatives to the macroeconometric model for the analysis of policy – the SVAR. Relatively new in application to fiscal policy (perhaps though lack of high frequency data?), SVARs have long been popular in attempts to measure the effects of monetary policy. They remain controversial in many

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respects. SVARs are bound to be "small", as it is hard to handle more than five or so equations in this framework. They are far from the ideal of unrestricted measurement for this reason. The modeller has to make drastic simplifications. The record in monetary policy application also features sustained efforts to resolve various "puzzles" – wrong signs on variables – which indicate considerable compromise with the unrestricted ideal. Nevertheless, this paper is to be welcomed in view of the very small experience we have with fiscal SVARs so far.

The paper by *Denis and Quinet* displays yet another methodology, that of panel data analysis. Here, the authors' interest is in tracking episodes of "anti-Keynesian effects", named for the observation of "expansionary contraction" in periods of fiscal consolidation. There are some misgivings one can have about the strength of inference in panel data estimates. The method treats the experience of an economy through time as equivalent to that of a comparison of economies at a point of time. It is important to deploy a battery of controls to render the method reliable and it is never entirely clear that this can be done. In the case in point, large fiscal consolidations are often accompanied by a package of other measures and by a strong rhetoric on the part of government ministers and others. Is it then the fiscal action that produces the observed anti-Keynesian effect, or the other things? Despite misgivings like these, this paper is obviously a workmanlike exploration of the issues.

The paper by *Murchison and Robbins* attacks the estimation of the built-in stabilizers from a fresh standpoint. There is an established procedure for estimating the "built-in stabilizers", one which is practised in all the main international policy-making bodies – the IMF, OECD and EC. The procedure identifies *a priori* the elements of expenditure (only one: unemployment compensation) and tax revenues which are assumed to be cyclically sensitive. Then appropriate elasticities are estimated and a measure of the output gap is generated. These steps involve minor variations as between the organizations that estimate the built-in stabilizers. The resultant estimates of the cyclically-adjusted budget balance differ considerably from estimates generated by (say) applying the Hodrick-Prescott methodology to the data, or – so far as one see – the estimates generated in this paper. (It would be helpful to have a direct comparison). The reason is that the IMF-OECD-EC method specifies cyclically-sensitive budget components as those that, for *given tax and expenditure schedules,* generate cyclically-sensitive expenditure or revenue flows. By construction, they take no account of cyclically-sensitive

changes in these schedules. Melitz (2000), in a paper first written some time ago, showed these changes to be significant in size. The Murchison-Robbins paper takes all this into account in what is a constructive and carefully executed estimation exercise. It would be instructive to apply a similar methodology to other countries.

Finally there is the paper by *Vanne* which demonstrates an issue arising in the generational accounting literature. This issue concerns the correct valuation of assets held by governments, perhaps to find pension payments. Since asset prices can reflect the effects of "irrational exuberance" these will be imported into the generational eccounting framework where the government holds such assets, as in the case the author examines. What should be done about this? There are broadly two possibilities : one is to ensure that any decision rules dependent on these data take into account their volatility: or, a valuation principle which incorporates some dampening factor might be used. Either way, the important point is to establish the transparency of the procedure.

The five papers reviewed here reflect well the range of empirical work on fiscal issues; just as important, they reflect well on the research agenda and competence of the authorities concerned.

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