



BANCA D'ITALIA
EUROSISTEMA

Fiscal Policy and Growth

Seminari e convegni
Workshops and Conferences

July 2013

number

13

Earlier versions of the papers in this volume were presented at the Banca d'Italia workshop on "Fiscal Policy and Growth" held in Perugia, S.A.Di.Ba., on 29-31 March, 2012. We wish to thank the staff of S.A.Di.Ba. for their assistance in all aspects of the organization of the workshop.

Previous Public Finance workshops have addressed the following topics:

- "Indicators of Structural Budget Balances" (1998)
- "Fiscal Sustainability" (2000)
- "Fiscal Rules" (2001)
- "The Impact of Fiscal Policy" (2002)
- "Tax Policy" (2003)
- "Public Debt" (2004)
- "Public Expenditure" (2005)
- "Fiscal Indicators" (2006)
- "Fiscal Policy: Current Issues and Challenges" (2007)
- "Fiscal Sustainability: Analytical Developments and Emerging Policy Issues" (2008)
- "Pension Reform, Fiscal Policy and Economic Performance" (2009)
- "Fiscal Policy: Lessons from the Crisis" (2010)
- "Rules and Institutions for Sound Fiscal Policy after the Crisis" (2011)

The proceedings may be requested from:

Banca d'Italia
Biblioteca
Via Nazionale, 91
00184 Roma
Italy

They are also available at the Banca d'Italia website:

http://www.bancaditalia.it/studiricerche/convegni/atti;internal&action=_setlanguage.action?LANGUAGE=en
and:
http://www.bancaditalia.it/pubblicazioni/seminari_convegni;internal&action=_setlanguage.action?LANGUAGE=en

The contents of this book do not commit Banca d'Italia.
Responsibility for the ideas and opinions expressed rests with the authors of the papers.
Printed by the Printing Office of Banca d'Italia, Rome, November 2012.

ISSN 2281-4337 (stampa)
ISSN 2281-4345 (online)

© 2013 Banca d'Italia

CONTENTS

Foreword

Daniele Franco (<i>Banca d'Italia</i>)	p. 11
---	-------

Introduction

Maria Rosaria Marino, Martino Tasso and Pietro Tommasino (<i>Banca d'Italia</i>)	p. 13
---	-------

Session 1

THE SHORT-TERM IMPACT OF FISCAL POLICY

1. Fiscal Multipliers and Fiscal Consolidations

Ray Barrell,* Dawn Holland** and Ian Hurst** (* <i>Brunel University</i>) (** <i>National Institute of Economic and Social Research</i>)	p. 29
--	-------

2. Fiscal Multipliers: How Much Bang for the Buck?

Glenn Follette and Byron Lutz (<i>Federal Reserve Board</i>)	p. 45
---	-------

3. Fiscal Consolidation in Reformed and Unreformed Labour Markets

Alessandro Turrini (<i>European Commission</i>)	p. 61
--	-------

4. The Macroeconomic Effects of Expenditure Shocks During Good and Bad Times

Francesco Caprioli and Sandro Momigliano (<i>Banca d'Italia</i>)	p. 79
---	-------

5. Fiscal Consolidation in the Midst of the Crisis

Francesco Di Comite, Gabriele Giudice, Julia Lendvai and Ingrid Toming (<i>European Commission</i>)	p. 111
--	--------

Comments

Jan Babecký
(*Czech National Bank*) p. 139

Comments

Adi Brender
(*Bank of Israel*) p. 143

Comments

Walpurga Köhler-Töglhofer
(*Österreichische Nationalbank*) p. 147

Session 2

GOVERNMENT BUDGETS AND POTENTIAL GROWTH

6. Debt and Growth: New Evidence for the Euro Area

Anja Baum*, Cristina Checherita-Westphal** and Philipp Rother**
(* *University of Cambridge*)
(** *European Central Bank*) p. 155

7. Public Debt and Growth

Manmohan Kumar and Jaejoon Woo
(*IMF*) p. 173

8. Dynamic Labor Supply with Taxes: The Case of Italian Couples

Maria Rosaria Marino, Marzia Romanelli and Martino Tasso
(*Banca d'Italia*) p. 209

9. Do Public Policies of a Net-Revenue-Maximizing Government also Promote Informality?

Nivedita Mukherji* and Fuad Hasanov**
(* *Oakland University*)
(** *IMF*) p. 229

10. Economic Performance, Government Size, and Institutional Quality

António Afonso*,** and João Tovar Jalles***
(* *ISEG/UTL - Technical University of Lisbon*)
(** *European Central Bank*)
(*** *University of Aberdeen*) p. 257

11. Fiscal Policy and Economic Growth: The Case of Albania

Gerti Shijaku and Arlind Gjokuta
(*Bank of Albania*) p. 283

Comments

John Janssen
(*New Zealand Treasury*)..... p. 303

Comments

Gilles Mourre
(*European Commission and Free University of Brussels*) p. 305

Session 3

TAXATION, REGULATION AND PUBLIC SERVICES

12. How Costly Are the Public Sector Inefficiencies? An Integrated Framework for Its Assessment

Jorge Onrubia-Fernández and A. Jesús Sánchez-Fuentes
(*Universidad Complutense de Madrid*) p. 313

13. Growth Implications of Structure and Size of Public Sectors

Hans Pitlik and Margit Schratzenstaller
(*WIFO, Austria*) p. 325

14. Service Regulation and Growth: Evidence from OECD Countries

Guglielmo Barone and Federico Cingano
(*Banca d'Italia*) p. 369

15. The Marginal Cost of Public Funds in the EU: The Case of Labour Versus Green Taxes

Salvador Barrios, Jonathan Pycroft and Bert Saveyn
(*European Commission*)..... p. 403

16. The Quality of Government and Living Standards: Adjusting for the Efficiency of Public Spending

Francesco Grigoli* and Eduardo Ley**
(* *IMF*)
(** *The World Bank*)..... p. 433

17. Income Taxation, Transfers and Labor Supply at the Extensive Margin

Péter Benczúr, Gábor Kátay, Áron Kiss and Olivér M. Rácz
(*Bank of Hungary*) p. 449

**18. An Evaluation of the 1997 Fiscal Decentralization Reform in Mexico:
The Case of the Health Sector**

André Martínez Fritscher and Carolina Rodríguez Zamora
(*Banco de México*) p. 471

Comments

Stefan Bach
(*DIW, Berlin*) p. 503

Comments

Sergio Clavijo
(*ANIF, Colombia*) p. 507

Comments

Yngve Lindh
(*Ministry of Finance, Sweden*) p. 509

Session 4

POLICIES TO PROMOTE SUSTAINABLE GROWTH

19. Fiscal Consolidation Needs and Implications for Growth

Douglas Sutherland
(*OECD*) p. 515

**20. Human Capital Formation in Argentina:
Contribution to Gross Domestic Product**

Ernesto Rezk, Maria De los Ángeles Mignon and Agustín Ramello De la Vega
(*Instituto de Economía y Finanzas, Universidad Nacional de Córdoba, Argentina*).. p. 545

**21. Public Debt and Economic Growth:
A Quick Look at Threshold Effects**

Balázs Égert
(*OECD*) p. 581

22. Fiscal Policies Enhancing Growth in Europe: Can We Apply Common Remedies to Different Countries?	
Carine Bouthevillain and Gilles Dufrénot (<i>Banque de France</i>).....	p. 587
23. An Assessment of Stability and Growth Pact Reform Proposals in a Small-scale Macro Framework	
Jérôme Creel*, Paul Hubert** and Francesco Saraceno** (* <i>OFCE/Sciences Po, France and ESCP Europe</i>) (** <i>OFCE/Sciences Po, France</i>).....	p. 613
24. Fiscal Policy, Structural Reforms and External Imbalances: A Quantitative Evaluation for Spain	
Ángel Gavilán, Pablo Hernández De Cos, Juan F. Jimeno and Juan A. Rojas (<i>Banco de España</i>)	p. 645
25. Equity Aspects of VAT in Emerging European Economies: The Case Study of Serbia	
Nikola Altiparmakov* and Milojko Arsić** (* <i>Fiscal Council, Republic of Serbia</i>) (** <i>University of Belgrade</i>)	p. 675
Comments	
Werner Ebert and Sarah Ciaglia (<i>Ministry of Finance, Germany</i>).....	p. 695
Comments	
David A. Heald (<i>University of Aberdeen</i>)	p. 699
Comments	
Sergey Vlasov (<i>Bank of Russia</i>)	p. 703

Contributors

António Afonso (*ECB*)
Nikola Altiparmakov (*Fiscal Council Republic of Serbia*)
Milojko Arsić (*University of Belgrade*)
Jan Babecký (*National Bank of the Czech Republic*)
Stefan Bach (*DIW Berlin*)
Ray Barrell (*Brunel University*)
Salvador Barrios (*European Commission*)
Anja Baum (*University of Cambridge*)
Péter Benczúr (*Bank of Hungary*)
Carine Bouthevillain (*Banque de France*)
Adi Brender (*Central Bank of Israel*)
Francesco Caprioli (*Banca d'Italia*)
Cristina Checherita-Westphal (*European Central Bank*)
Sarah Ciaglia (*Ministry of Finance, Germany*)
Sergio Clavijo (*ANIF Colombia*)
Jérôme Creel (*OFCE/Sciences Po, France and ESCP Europe*)
Maria De los Ángeles Mignon (*Instituto de Economía y Finanzas, Universidad Nacional de Córdoba, Argentina*)
Francesco Di Comite (*European Commission*)
Gilles Dufrénot (*Banque de France*)
Werner Ebert (*Ministry of Finance, Germany*)
Balázs Égert (*OECD*)
Glenn Follette (*Federal Reserve Board*)
Daniele Franco (*Banca d'Italia*)
Ángel Gavilán (*Banco de España*)
Gabriele Giudice (*European Commission*)
Arlind Gjokuta (*Bank of Albania*)
Francesco Grigoli (*IMF*)
Fuad Hasanov (*IMF*)
David A. Heald (*University of Aberdeen*)
Pablo Hernández De Cos (*Banco de España*)
Dawn Holland (*National Institute of Economic and Social Research*)
Paul Hubert (*OFCE/Sciences Po, France*)
Ian Hurst (*National Institute of Economic and Social Research*)
John Janssen (*New Zealand Treasury*)
Juan F. Jimeno (*Banco de España*)

Gábor Kátay (*Bank of Hungary*)
Áron Kiss (*Bank of Hungary*)
Walpurga Köhler-Töglhofer (*Österreichische Nationalbank*)
Manmohan Kumar (*IMF*)
Julia Lendvai (*European Commission*)
Eduardo Ley (*The World Bank*)
Yngve Lindh (*Ministry of Finance, Sweden*)
Byron Lutz (*Federal Reserve Board*)
Maria Rosaria Marino (*Banca d'Italia*)
André Martínez Fritscher (*Banco de México*)
Sandro Momigliano (*Banca d'Italia*)
Gilles Mourre (*European Commission and Free University of Brussels*)
Nivedita Mukherji (*IMF*)
Jorge Onrubia-Fernández (*Universidad Complutense de Madrid*)
Hans Pitlik (*WIFO Austria*)
Jonathan Pycroft (*European Commission*)
Olivér M. Rácz (*Bank of Hungary*)
Agustín Ramello De la Vega (*Instituto de Economía y Finanzas, Universidad Nacional de Córdoba, Argentina*)
Ernesto Rezk (*Instituto de Economía y Finanzas, Universidad Nacional de Córdoba, Argentina*)
Carolina Rodríguez Zamora (*Banco de México*)
Juan A. Rojas (*Banco de España*)
Marzia Romanelli (*Banca d'Italia*)
Philipp Rother (*European Central Bank*)
A. Jesús Sánchez-Fuentes (*Universidad Complutense de Madrid*)
Francesco Saraceno (*OFCE/Sciences Po, France*)
Bert Saveyn (*European Commission*)
Margit Schratzenstaller (*WIFO Austria*)
Gerti Shijaku (*Bank of Albania*)
Douglas Sutherland (*OECD*)
Martino Tasso (*Banca d'Italia*)
Ingrid Toming (*European Commission*)
João Tovar Jalles (*ECB*)
Alessandro Turrini (*European Commission*)
Sergey Vlasov (*Bank of Russia*)
Jaejoon Woo (*IMF*)
Pietro Tommasino (*Banca d'Italia*)