

# **Discussion:**

- 1. Fiscal Structural Reforms: the Effect of Card Payments on VAT Revenue in the Euro Area**
- 2. Fiscal Stabilization and Productive Investment: Evidence from Advanced Economies**
- 3. Does Purchase Centralization Reduce Public Expenditure? Evidence from the Italian Healthcare System**

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# Overall View

- Not much is common between the 3 papers.
- All 3 try to convey policy messages:
  - Purchase centralization saves costs.
  - Stabilizing fiscal policy boosts R&D and ICT investment in certain sectors.
  - Use of pay cards enhances tax compliance.
- For the most part, thorough empirical work
- However, not so convincing about causality and/or policy implications.

## Card payments' effect on VAT revenue

Main Messages: Increasing card payments' share in private consumption expenditure:

- (i) improves tax compliance and collection efficiency;
- (ii) increases VAT revenue;
- (iii) contains efficiency losses after rate hikes.

However, there is little discussion of the correlation between economic and administrative measures on the one hand and card use on the other.

Is card use orthogonal to other factors that affect “tax-<sup>3</sup>efficiency”?

# The measure of efficiency

- The measure of tax efficiency and obedience is far from perfect and is **potentially correlated with economic performance and policy**.
- Raising **only** the **standard VAT rate** reduces “efficiency” by definition. If its coverage is correlated with the development of the country (e.g. retail and financial) this creates spurious correlations.
- If the preferred rates are “raised” only in crises, when there are also administrative measures to enhance enforcement, and card-share is rising, the true effect is not observable.

# “To do” list

- More work is needed to analyze the key variable, characterize its behavior, and show whether it is correlated with other variables, or genuinely exogenous.
- This can be done by digging deeper into the structure of VAT in the sample countries and providing more accurate analysis that accounts for mechanical changes and level differences due to non-uniform rates.
- Analyze when rates are changed, which rates, and how these changes are associated with economic variables.

# Additional comments

- Card payments are reported annually. Their transformation into **quarterly series is an artificial expansion of the sample**. This is not needed since the paper discusses a structural feature of the economy – tax compliance.
- Not clear why **online payments** are excluded. A shift from cash to online is likely to increase compliance.
- **Compliance generates almost by definition an increase in the tax base** (GDP, consumption), as more transactions are reported (tax data are used in the NA). Hence, this is a trivial result.

# Furceri and Jalles

- Main message: in countries with more stabilizing fiscal policy, firms in sectors that depend on external financing invest more in R&D and ICT.
- **Put more clearly: large governments and more progressive taxes encourage R&D and ICT, especially in highly leveraged industries.**
- This is an unusual message. It needs more than this econometric analysis to be convincing.
- But, **the analysis is in relative terms**: actually these characteristics may discourage investment, but change its allocation across industries.

# What may help?

- More descriptive statistics depicting **which countries**, in which periods **are characterized by high FSi**.
- Choose an **indicator of volatility** and show that it is negatively **correlated with FSi**.
- **Are the industries with large external financing relevant for the overall investment** in R&D and ICT, or constitute only a small portion of it?
- The industries with high external financing are less exposed to **international competition**. Perhaps that is why they are less affected by crises, and more by government activity. This may create the observed correlation.



# Additional comments

- The difference between manufacturing and all other sectors (Table 2) is negligible. It casts some doubt about the interpretation of the results.
- The analysis with IV for the FSi is nice: however, the fact that the results are similar quantitatively to the baseline may suggest that fiscal policy does not really affect economic performance – as this effect is what the IV should “clean”.
- **Shouldn't the deficit be interacted with the output gap** rather than growth? This would seem to be the more intuitive interpretation.

# Ferraresi, Gucciardi and Rizzo

Main message: **centralization** of purchases in the Italian health care system **reduced cost** by 3-4%.

- The reduction affected **only health services** – not goods nor non-health goods and services in the health-care system.
- Method: comparing performance **before and after** the adoption of a reform mandating establishment of CPBs, **and across regions** – as their reform-adoption dates differed.
- **Key assumption:** **adoption timing is random**, or at least not caused by reasons that affect cost reduction.

# Concern

- Budgetary pressure might have led to the introduction of CPBs at a specific time and place.
- Can it be that the **budgetary pressure caused the cost-reduction** and not the CPB?
- Moreover, **non-adoption** of a central budgetary rule may **indicate fiscal laxity**.
- To persuade that this is not the case: **use placebo tests for the “treatment” with respect to other public services**; those did not have CPBs but could have been affected by budgetary change of behavior.
- Show budgetary indicators of early adopters compared to later ones.

## Second assumption: cost reduction does not represent a reduction in quality

- The finding that CPBs only affect health services may be an indication (although not proof) that this is not the case.
- The result that the number of nurses significantly declined in the “treated” regions may indicate such a reduction.
- What the authors refer to as “health outcomes” are **actually just** quantities of various **inputs** (Table 4).

# Why quality matters here?

The discussion of quality is at the heart of the centralization debate: the farther decisions are taken from clients (voters) the more decision makers tend to focus on cost reduction rather than on quality of service – especially in its less tangible components.

Thank You