

Comment on: Fiscal policy and the «Great Recession» in the Euro Area by Günter Coenen

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Overview

- Financial crisis and ZLB has put fiscal policy on the agenda!
- This paper analyses effects of fiscal stimulus package: European Economic Recovery Plan (EERP) in the European Union.
- Extended version of the ECB's New Area-Wide Model (NAWM)
- **High degree of detail of fiscal variables** - Important complementarities between private and government consumption, lesser extent between private and public capital
- Result: Fiscal multiplier are larger than one for government C and I, (due in part to monetary accommodation).
- **EERP had a SR sizeable effect on euro are GDP**

Structure

- **Very nice and very relevant paper for SOE like Norway!**
- Standard open-economy DSGE model with a detailed (rich) specification of fiscal sector (8 variables)
- **Baseline:** Fiscal authority purchases public consumption, issues domestic bonds, levies distortionary taxes. Ricardian equivalence holds as fiscal budget balanced each period with lump-sum taxes

Extended version: Fiscal policy can influence the economy through several additional channels:

1. Non-Ricardian households - government transfer have real effects
2. Government consumption valued by household in a non-separable way – govern cons affect optimal prv. cons directly (as opposed to indirect wealth effect when separable gov. cons). Compliment or substitute
3. Public capital subject to time to build technology – compliment or substitute of pr. capital
4. Time varying distortionary tax rates
5. Fiscal rules that determine the endogenous adjustment of different fiscal instruments – feedback rule

Comments I Open economy?

1. Effect varies across countries, depending on monetary regimes and openness - least effective if IT, most effective under ZLB.
2. Effect varies across macro conditions: Higher during financial and sovereign debt crisis
3. Tax multipliers exceed spending multipliers... But until recently, most evidence is from the US

Export, import plus foreign sector. Role of exchange rate?
Which country should we think of. Greece or Germany?

Comments II Taxes

1. Fiscal multipliers for Government cons and inv > 1 and cons taxes > 0.5 . But: Romer and Romer: Various taxes: Multiplier 1:3

What about corporate taxes?
Time lag in taxes – News about future taxes?

Comments III Fiscal policy and financial crisis

What really matter?

Are features that generated the financial crisis still missing?

Heterogeneity of agents, markets that do no clear, regulatory frameworks, financial innovations?