Macroeconomic Policy of Growth
“Cyclical Budgetary Policies: Their determinants and effects on growth”

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Key findings ABM paper

• Firstly, over the last twenty years, public debt in OECD countries has become less pro-cyclical. This effect is less pronounced in EMU Member States.

• Secondly, reducing the pro-cyclicality of investment appears to have a positive effect on growth, particularly in those countries with a lower degree of financial development.

• Thirdly, less financially-developed countries display less counter-cyclical government debt and investment than other OECD countries.
Three sets of comments

• The broader context.
• The underlying Schumpeterian view of fiscal policy.
• Policy implications.
Contextualising the debate

• Interactions between macroeconomic policies and growth.
  – Channel: Business cycle – via liquidity constraints.
  – Channel: Macroeconomic support for structural reform policies.
  – Channel: inflation differences and real x-rate misalignments.
The underlying Schumpeterian view of fiscal policy

- Focus more on the creative side of Schumpeter’s argument and less on the destructive side.
- Logic is a bit opaque.
- Excessively demand-sided view of public investment.
- Fiscal policy contribution
- Political economy of fiscal policy
The policy implications

- Can only be understood in a second-best world.
- First best is to address financial market failures directly.
- Discretionary countercyclical fiscal policy suffers from same drawbacks as other discretionary policies.
The policy implications

• Can governments “pick the winners”? Will it ensure additional investment over the cycle?
• Agree that fiscal policies should be neutral or countercyclical; but in view of achieving this it seems more promising to focus political energy on making the new pact work rather than trying to steer public investment in a countercyclical way.
Thank you for your attention