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“Design and Effects of National Fiscal Frameworks” Discussant Comments

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Nerlich and Reuter

- Results
  - Fiscal rules in Europe lead to better fiscal performance
  - Independent fiscal councils and effective medium term budget frameworks also improve fiscal performance

Comments

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- Strengths
  - Delighted to see original data collection
  - Findings intuitive, careful breakdown
- Suggestions
  - Endogeneity Issues (not just reverse causality)
    - Why did countries adopt fiscal councils, balance budget rules, etc., in the first place?
    - To their credit: they include several possibilities--partisanship, ideological fragmentation, district magnitude.
      - Include delegation and contracts as categories, but they should be predictors of the effectiveness of numerical targets/fiscal rules, and interacted with others
      - govt fragmentation, openness clearly correlated
      - Effects of district magnitude depend on whether there is open or closed list! Open list means increase in dist mag leads to more particularistic parliamentarians, the opposite is true with closed list

Further Comments

- Is the primary budget balance the correct dependent variable?
  - It ignores the impact of past fiscal behavior on current behavior
  - One can imagine where “poor” fiscal performance in aggregate means pressure for a higher primary balance
  - The relationship between balances and debt weak in many EMU years
  - We may be interested in how the introduction of fiscal rules affects bond ratings, and consequently the whole budget balance/debt burden, which ultimately determines sustainability
- What to do with Fiscal Council Results…
  - They vary in terms of mandate, capacity, and visibility
  - Go back to the 1970s and 1980s and you will get different results
- Conditional Coefficients
- European implications: More emphasis on ownership of use

Feld, Kalb, Moessinger, Osterloh

- Results
  - Presence and strength of Swiss Cantonal fiscal rules leads to lower bond spreads
  - Court decision on Leukerbad in 2003, which freed cantons from the expectation to bail out local governments, led to a reduction of cantonal risk premia

Comments

- Strengths
  - Careful measurement of the main independent variable (fiscal rules), believable results
  - Clear relevance for Europe: what are the effects of fiscal rules and no bailout credibility?
- Suggestions
  - There was also a national Swiss brake that came into effect in 2004, which passed in every canton with an average of 85% support
    - Any relevance for the finding on the Leukerbad decision?
  - What should we think of the dependent variable?
    - Previous work (Feld and Kirchgässner) look at fiscal performance in Switzerland
    - Others consider risk premia instead of spreads

Further Comments

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- Endogeneity Issues (not just determinants of referenda)
  - Why did adopt fiscal rules in the first place? Why do they not change once in place?
- More on Endogeneity may inform differences in the dependent variable, and make those differences more interesting
  - How do wealthy cantons (Basel area, Geneva) with no fiscal rules do in terms of fiscal performance and bond spreads?
  - American example: markets give more slack to wealthy states (i.e., California, Illinois, and New York), which perform even more poorly than their bond ratings would suggest
  - Suggestion: compare the results of different dependent variables