EUROPEAN SUMMER SYMPOSIUM IN INTERNATIONAL MACROECONOMICS
TARRAGONA, 27-30 MAY 2014

Discussion of the paper: "The effects of government spending: quasi-experimental evidence from Brazil"

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THE PAPER

S1: The "government revenue shock"

Rules-based, permanent, windfall, transfer from central to local govn't

S2: From the revenue shock to the "government spending shock"

Use of additional resources by municipalities

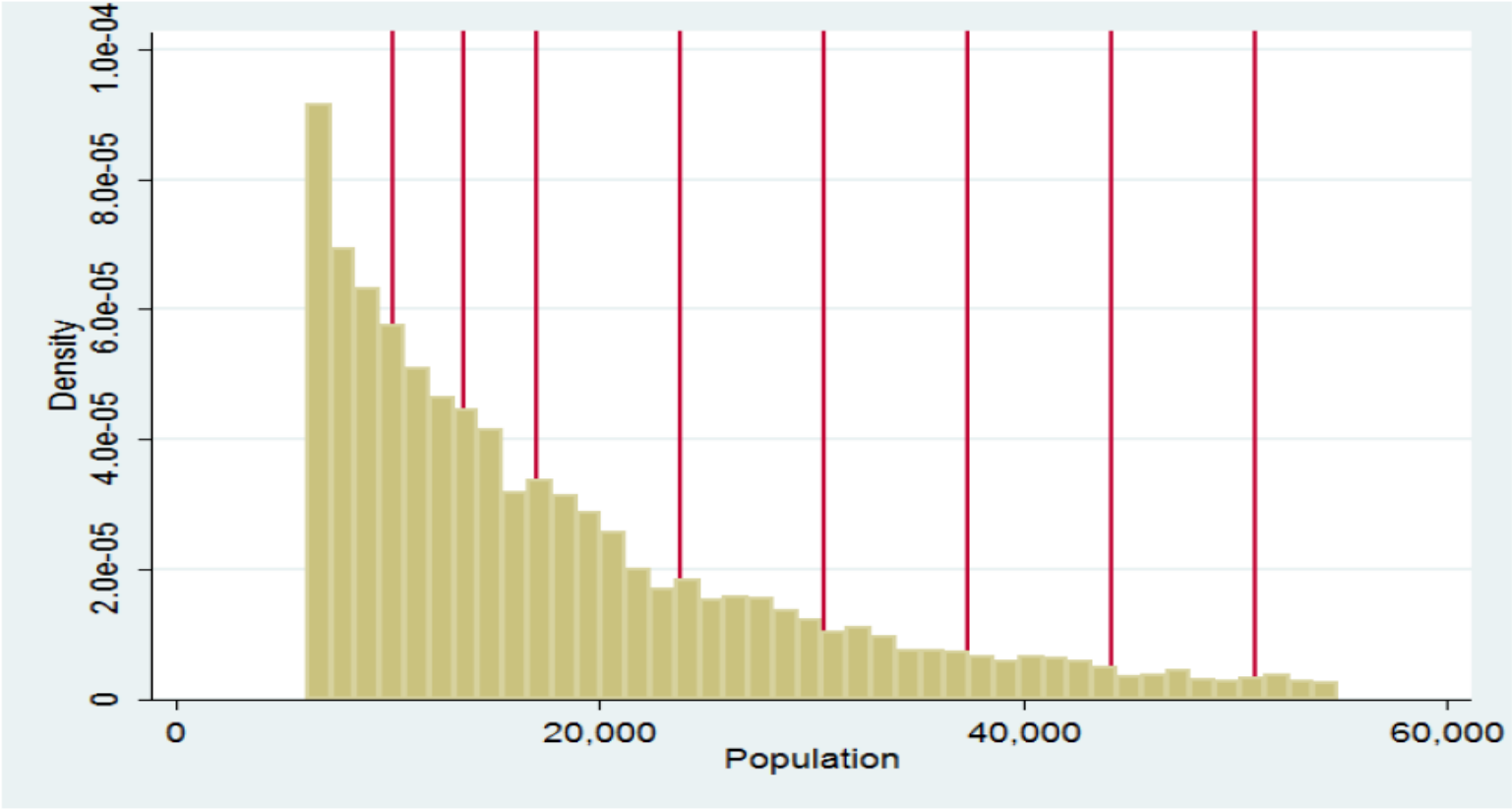
S3: The government revenue/spending shock and the economy

Effects on GDP of the (permanent) shock

Robust result: high and significant local (federal transfers') multiplier

Municipalities in Brazil (below 50,000h)

Figure 1: Distribution of Municipalities by Population (Years 2000-2009)



Source: Braga, Guillén, and Thompson (2013).

Q1: The government revenue shock

The discontinuity

For municipalities not far from the threshold this is an anticipated shock

- Precisely because it is rule-based: exploration (lags,…) needed (e.g. for national mult. Pappa, 2014)
- Fiscal rules limit debt, but it is a possibility (loans and arrears): may be instrumental in capturing this effect / also ↓local taxes

Municipalities can give residents in surrounding areas incentives to move

- A positive mass of municipalities may make the same choice (housing policies, …) near the threshold (sorting/bunching): RDD properties may fail
- Provide some formal test (e.g. McCrary, 2008) to reassure readers

Q1: The government revenue shock

"Flypaper effect": intergovernmental transfers may reduce local fiscal effort (huge fiscal federalism literature – for Brazil, e.g. Acevedo et al., 2012)

- Windfall, discrete jumps may generate over-financing
- The regression of TR on "Other revenues" does not make the job given additional State/Federal transfers – the relevant issue is the normative power (own local taxes, e.g. property, user charges)

The sample: representativeness for the national level and possible sources of (upward) bias for the subsequent computation of "multipliers"

- Covered municipalities: 25% of pop.; 10% change FPM bracket per year
- Smaller municipalities tend to have lower per capita income
- FPM weights more in relative terms for poor municip. (ICMS fund: 25% of VAT collection to – 75% – source local govn't + local fiscal capacity)

Q2: From the revenue shock to the "government spending shock" (more transparent)

Discussion of Corbi, Papaioannou, and Surico

Permanent (sustained) increase in transfers (versus standard temporary)

- **Direct short-run impact (public wage bill?) versus second-round effects**
  - A number of outcomes might be unresponsive in the short-run (population, housing values, wages…) (Suárez-Serrato and Wingender, 2014)

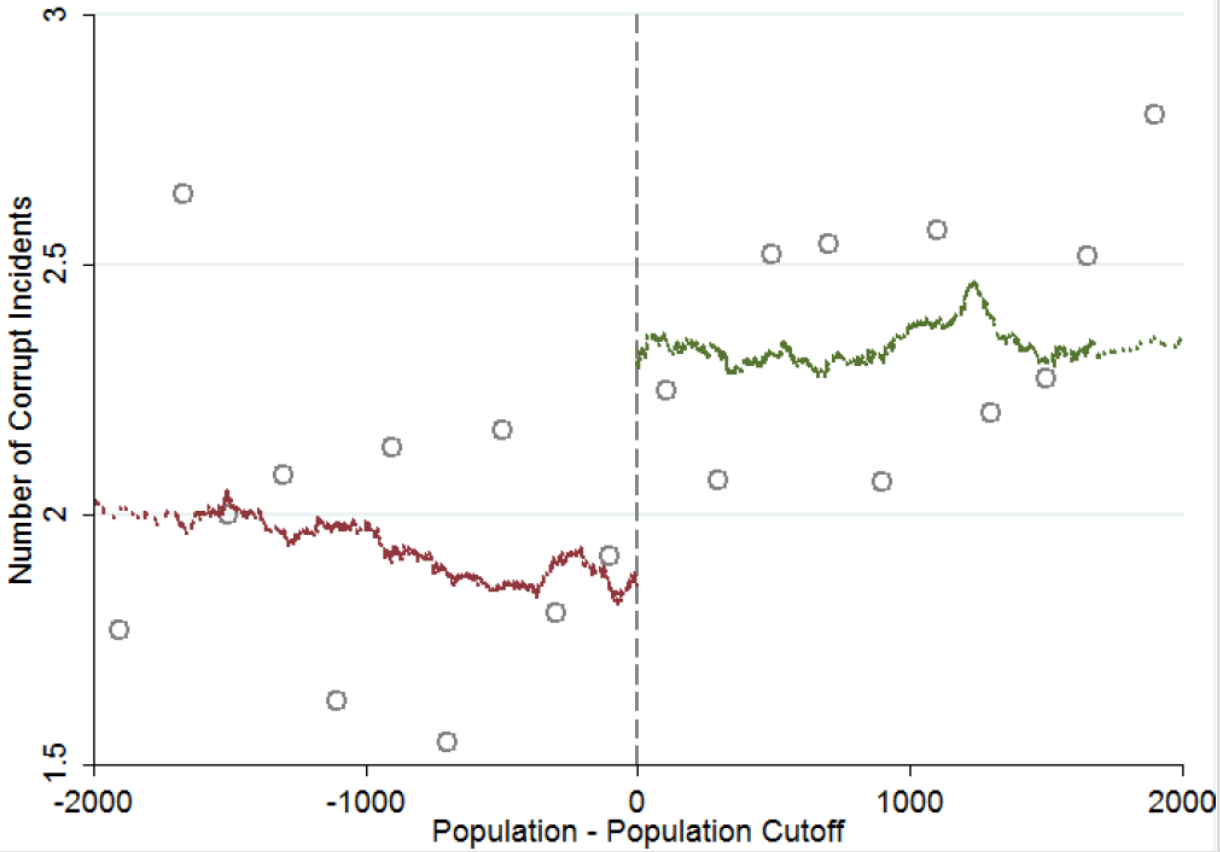
What kind of government expenditure?

- **Education/health: increase in public employment and public wages (?)**
- **Rule that sets personnel spending/receipts < 60% gets relaxed with ↑TR**

Capture and corruption

- **Brollo et al. (2013): proportional increase in measures of corruption based on audit reports**

Figure 9: Number of Corrupt Incidents



Source: Braga, Guillén, and Thompson (2013). Open circles represent bin averages of size 200, so that there are 10 bins on each side of the pooled cutoff.

Q3: The government revenue/spending shock and the economy

Discussion of Corbi, Papaioannou, and Surico

Large "open economy relative multiplier": the municipalities that receive the transfer (spending) do not have to pay for it

- For regions, under complete markets, wealth effect associated with ↑G fully shared with the rest of the economy (Nakamura and Steisson, 2014)
- For municipalities, likely upward bias (lower "national" multiplier)

A municipality as an extremely open economy

- "Openess of a municipality" is different from the degree of trade openess of the State in which the municipality is located
- Municipalities are purely administrative concepts: spill-over effects
- Many local public services present fixed costs that are shared/depend on nearby municipalities, local/State property (schools, hospitals,…)

Q3: The government revenue/spending shock and the economy

Measures of economic activity

- Municipal GDP: has to be considered with caution (estimated: VAT, …)
- Night time light emission is ok, but other proxies like electricity consumption (not only at nights) or local employment could do the job

Would be interesting to look at "labour market multipliers"

- Given increase in local public employment and wages (for national effects, Ramey, 2012; Monacelli et al, 2010; Brückner & Pappa, 2010)

SPECIFICATION: short- & long-term parts (level, changes) // additional controls (interaction with income level; spatial autocorrelation) // measure of G

$$Y_{i,t} = \gamma_{RF} PredictedTR_{i,t} + \lambda_i + \delta_t + \rho_{s,t} + u_{i,t}$$

<u>Population formula</u>: official population estimated between a proper census are produced by the IBGE on a yearly basis, following a top-down allocation procedure

- First, Brazil (birth rates, mortality, net migration), next, distribution among States (in proportion to past level census population weights), then to 20 groups of municipalities, and finally to each individual municipality
- What happens when “actual poulation” (including re-basing) happens? – Suárez-Serrato and Wingender (2014) use this discrepancy as a measure of short-term fiscal shock