

# “The Young, the Old, and the Government: Demographics and Fiscal Multipliers”

by Henrique S. Basso and Omar Rachedi

Discussion by Luca Marchiori

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Medium- and long-run challenges for Europe

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# Summary

## **Motivation**

- Fiscal multipliers summarize effectiveness of gov' fiscal stimulus plans
- No study looking at effects of demographics

## **Methodology**

- Method 1. Econometric analysis: *panel data, U.S. states*
  - Method 2. Macro model: *2-country NK, Blanchard OLG*
    - (i) estimate model data when pop structure = in 2 regions
    - (ii) estimate model data when pop structure  $\neq$  in 2 regions
- ⇒ Results of both methods are compared

## **Results**

- ↑ 1% of young workers (above average)
  - Method 1: local fiscal output multiplier ↑ by 3.1% from 1.51 to 1.56
  - Method 2: local fiscal output multiplier ↑ by 2% from 1.46 to 1.49

## General Comment

- Introduction: Aim, contribution and results clearly stated
  - Convincing approach
  - Many robustness checks on empirical findings
  - Several additional analyzes: national level multiplier, different decades, other multipliers (C,I,E)...
- finding has important policy implication:  
*Demographic change will reduce effectiveness of fiscal policy*

# Comments (1)

*Comments are mainly suggestions for further analysis/possible extensions*

## Comment 1

- Here demographic change is  $\Delta$ young
- What about other demo aspects: e.g. higher life expectancy  
→ Title: “The Young, the *Old* and the Government...”
- Suggestion for future work:  
compare effects of less *young* vs more *old*  
→ implications may be different: less *young* ( $\downarrow$  labor), more *old* ( $\uparrow$  capital)

# Comments (2)

## Comment 2

- Young acts here through 2 channels: labor supply and demand (consumption)
  - ⇒ these 2 channels explain most of the demo effect (of method 1)
- Nevertheless, what about other channels ?
  - In *Aging literature*:
    - $\Delta$ young associated to contributions,  $\Delta$ old to benefits
  - Demo & productivity. Fryer ReStat (2007): prime age workers  $\uparrow$  TFP
  - other effects...

## Comment 3

- Literature on demo effects and K mobility

(see e.g. *Attanasio et al. JME 2007, Kruger and Ludwig JME 2007*)...

- Higher life expectancy → more old → higher savings
  - Higher fertility → more young → attracts K from other region
- ⇒ what role of K mobility for fiscal policy ?

# Comments: Open eco OLG model (Luxembourg)

Disclaimer: simple calibration exercise & different models:

→ *small multiplier (open eco), fiscal rule, no age specific L supply...*

**Table:** Change in fiscal multiplier (%)<sup>1</sup>

1% more 20-39	0.29
<b>Comment 1:</b> Old	
1% more 65+	0.04
<b>Comments 1 &amp; 2:</b> Old & other effects	
1% more 65+ and 5% less pensions	-2.07

<sup>1</sup>Marchiori-Pierrard (2015) "LOLA 3.0: Luxembourg Overlapping Generation model for policy Analysis", BCL working paper n.100



# Conclusion

- Paper adopts an interesting approach to address an important question...
  - ... that raises many others
  - this is good news: several routes to be explored