

Fiscal Financing Regimes And Nominal Stability: An Historical Analysis

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Discussion by **Thomas Drechsel** (University of Maryland & NBER)

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 - ▶ Do future primary surpluses back current expenditures or not?

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 - ▶ Analyzes policy-makers stated objectives
- ▶ Findings
 - ▶ Gold Standard era vs. Great Inflation era (1960s-70s)
 - ▶ Primary balance ↑ vs. inflation ↑ after fiscal expansion

EXAMPLE OF POLICYMAKERS STATEMENTS

From Chancellor Anthony Barber's 1972 Budget Speech:

"It has been traditional to give, in the Budget Speech itself, some description of the Government's financial accounts, both past and prospective. But as all the figures are set out in the greatest possible detail in the Financial Statement and Budget Report, I think that hon. Members will agree that I can this year spare the House an oral summary."

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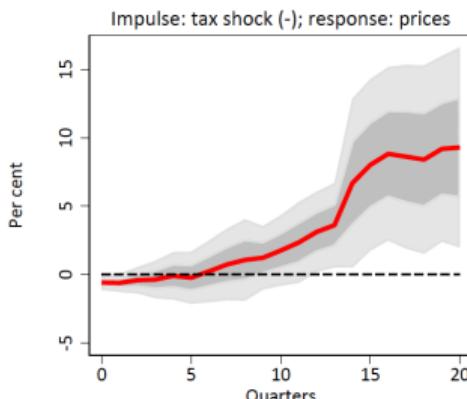
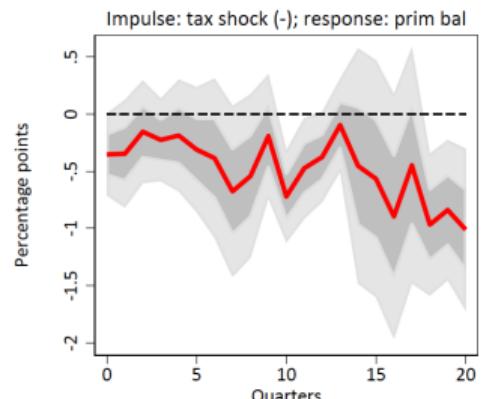
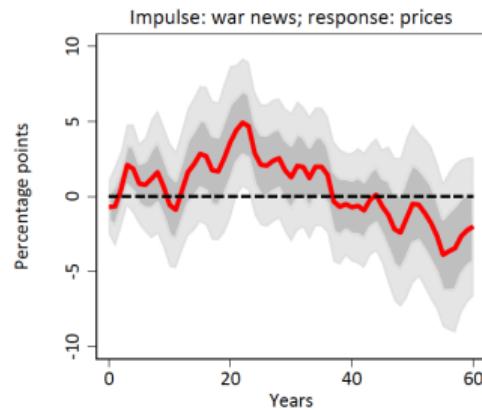
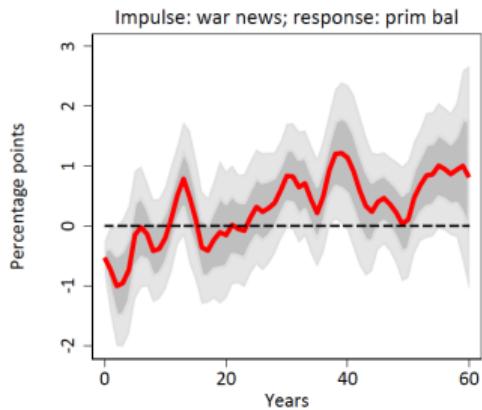


SUMMARY OF NARRATIVE EVIDENCE

Figure 1: Word frequency in Budget speeches



MAIN ECONOMETRIC RESULTS



MY COMMENTS

1. Narrative evidence: link between public finances and inflation
2. Econometric analysis: broader point
3. Econometric analysis: narrower point

NARRATIVE EVIDENCE

- ▶ The historical account provided by the paper is fascinating
- ▶ I would be curious to learn more about how well the connection between fiscal policy and inflation was understood, in real time, in the 1960s and 70s
- ▶ The paper discusses this understanding in reference to
 - ▶ Private sector beliefs
 - ▶ Academic views (monetarism)
- ▶ To what degree did this knowledge permeate the spheres of UK policymakers?

ECONOMETRIC ANALYSIS: BROADER POINT

- ▶ The paper goes through a lot of careful historical analysis
- ▶ In terms of formal econometrics, the narrative evidence ends up informing
 - ▶ A sample split between two very different periods
 - ▶ A separate econometric analysis in each period
- ▶ There are other reasons why we might obtain different IRFs in these periods
- ▶ In my view, the paper would benefit from tighter econometric evidence

ECONOMETRIC ANALYSIS: BROADER POINT (CONTINUED)

- ▶ Why not compare 1960s-70s with **1980s/90s/2000s**, using the *same* method?
 - ▶ The tax shocks by Cloyne (2013) are readily available for that period
- ▶ I understand that Gold standard vs. 1960s-70s is the sharpest possible contrast
- ▶ But as *additional* evidence, I would find IRFs for this third period interesting
 - ▶ In my view, the current draft has also enough space to include this

ECONOMETRIC ANALYSIS: NARROWER POINT

- ▶ In Gold Standard era, fiscal shocks identified from consol yield variation
- ▶ Basic idea: long-term yields respond to fiscal news
 - ▶ Nice approach, also given lack of alternatives in this period
- ▶ However, doesn't this idea reflect something about the fiscal financing regime?
 - ▶ If fiscal news expected to be financed through inflation, yields go up
- ▶ Thinking more about this point might be interesting
 - ▶ Maybe distinguish between nominal and real yields?

CONCLUSION

- ▶ Fascinating paper, based on a very neat idea
- ▶ I learned a lot about UK history
- ▶ Econometric evidence is coherent with the narrative
- ▶ My overall recommendation is to further sharpen that evidence