

# Fiscal Financing Regimes And Nominal Stability: An Historical Analysis

BY OLIVER BUSH

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

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- ▶ Uses historical documents from the UK & narrative approach
  - ▶ 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:

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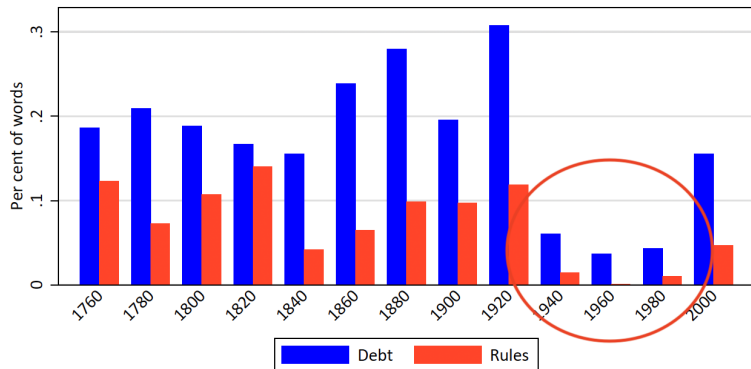
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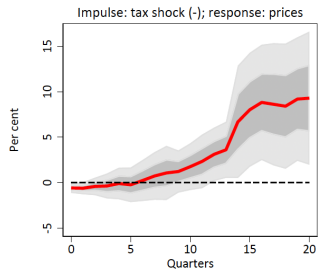
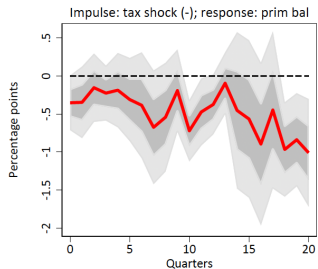
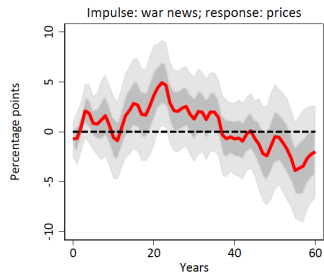
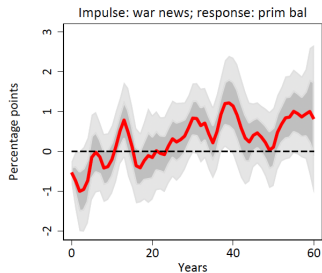


# SUMMARY OF NARRATIVE EVIDENCE

**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