

Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University

Student:	Jaroslav Máca
Advisor:	Jaromír Baxa
Title of the thesis:	Expansionary fiscal consolidation reconsidered

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Please provide a short summary of the thesis, your assessment of each of the four key categories, and an overall evaluation and suggested questions for the discussion. The minimum length of the report is 300 words.

Short summary

The policy response to the Great Recession particularly in Europe has been strongly influenced by papers suggesting an expansionary nature of fiscal consolidations, in particular by papers co-authored by Alberto Alesina. However, already in the times of the crisis, there has been some discussion about whether the results pointing towards positive impact of fiscal consolidation on output growth are reliable and whether their validity is universal, as claimed by its proponents. The purpose of Jaroslav Maca's thesis is to test whether popular results (particularly those of Alesina and Ardagna, 2010) are robust to inclusion of other covariates, alternative method of identifying fiscal effort, and extension of the sample for the period of the Great Recession and for additional countries.

Contribution

Jaroslav Maca estimates the impact of fiscal consolidation on growth and other macroeconomic variables using local projections and with fiscal consolidation episodes identified using the narrative approach (net of any potential endogeneity with output growth) and compares the results estimated using cyclically adjusted budget balances. For his thesis, Jaroslav extended existing databases of fiscal consolidations compiled originally by Alesina et al. (2017) by new data and CEE countries, that is, for additional 2037 new fiscal measures. Already, this compilation of new data is a decent contribution to the literature by itself. Then, Jaroslav shows that the findings of expansionary nature of fiscal consolidations break down once additional covariates are included in regressions and is probably limited only for countries with floating exchange rates, as speculated, for example by Mark Blyth in his book *Austerity: The Myth of and Dangerous Idea*. Overall, the thesis provides new evidence suggesting that the previously accepted results shall be reconsidered, which is an important lesson given the current state of public finances in Europe.

Methods

The core of the thesis relies on local projections, which are perfectly adequate for this type of analysis. The method is implemented correctly, as far as I can assess. I have only some reservations with respect to the interpretation of the results because my reading of the results is somewhat different from the perspective presented by Jaroslav. To me, seeing positive impact of fiscal consolidation at a horizon of seven or eight years is for me a result that is contrary to the hypothesis of fiscal consolidation, which suggested relatively fast rebound of gdp growth after tightening of fiscal policy. Note that local projections can be less precise at longer horizons, larger than the number of lags in the model; therefore, one perhaps shall be cautious when deriving policy implications from local projections only at longer horizons. Also, my reading of Figure 5.6 is that spending-based fiscal consolidation has negative effects on growth in the first two years, while the tax-based consolidation might be expansionary already on a horizon of two years. But interpretation is always part of the personal approach of each author, and Jaroslav's interpretation is not wrong in the sense that there are no trivial interpretation mistakes, misunderstanding of the concept of statistical significance or so.

Literature

This thesis is based on excellent work with very recent literature.

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Manuscript form

The thesis is nicely presented. Perhaps some of the results that are left only for the Appendix could have been presented in the main text, for example Jaroslav could present the results based on the methodology by Alesina and Ardagna (with CAPB and without control variables), and then to show that the results change quite dramatically particularly when other covariates are included in local projections, but this is a matter of taste. Also, wording can be sometimes bit more „academic“. However, I must say that when seeing the intermediate phases, I couldn't imagine that the final output would look so professionally, so well written and so polished. I would like to také this opportunity to congratulate Jaroslav on bringing the thesis to such a successful end.

Overall evaluation and suggested questions for the discussion during the defense

I am convinced that Jaroslav delivered an excellent thesis, with a distinct contribution, with results that can be of interest to the community.

During the defense, let me propose to discuss whether the cyclically adjusted primary balance is a reasonable indicator of fiscal effort at all, given the large difference from the narrative approach presented in Figure 3.1.

Depending on the defense, I suggest grade A, and I think that the main results would deserve publication, at least to make the dataset available to other researchers.

Last but not least, the results of the Turnitin analysis do not indicate significant text similarity with other available sources, and thus, there is no issue with plagiarism.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	29
<i>Methods</i> (max. 30 points)	27
<i>Literature</i> (max. 20 points)	20
<i>Manuscript Form</i> (max. 20 points)	20
TOTAL POINTS (max. 100 points)	96
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE:

Jaromír Baxa

DATE OF EVALUATION:

June 5, 2024

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F