



ARTÍCULOS

Letter from the Editors

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Letter from the Editors

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The Editors in Chief of the Revista de Economía y Finanzas, whose first number dates back to 1935, announce with pleasure that, following successful contacts with Banca d'Italia and with authors, a group of articles submitted to the 12th Public Finance Workshop held in Perugia from 25 through 27 March 2010, are now reprinted in the journal edited by the Institute of Economics and Finance of the National University of Córdoba, Argentina.

The workshop was devoted to the consideration of Fiscal Policy Lessons from the Crisis. The editors (Marika Cioffi, Daniele Franco and Maria Rosaria Marino) of the Banca d'Italia's release of the papers noted that 'the economic downturn and its severe impact on public finances and long term growth have renewed the debate on the role, design and priority of fiscal policy'. They argued that the new consensus on the complementarity of monetary and fiscal policies stemmed from the limited effectiveness of monetary policies when low interest rates prevail and dysfunctional credit markets add extra challenges to the efficacy of economic tools.

In organizing the presentation, four articles by Fischer and Justo, Follette and Lutz, Creel and Saraceno and Schuknecht, were selected to be included in the number 1-2010 of Revista de Economía y Estadística. They examine the role of automatic stabilizers and discretionary policies from different angles. They offer different views on automatic stabilization and fiscal activism during crises. These papers will be complemented by four additional articles that will be appearing in the next issue.

J. Fischer and I. Justo examine the discretionary measures taken by European Union Member States in response to the recent international crises. They offer a broad overview of the measures and estimates of their dimensions. They note that discretionary support was – at the aggregate level – timely, temporary and targeted, as requested by prevailing policy indications. Countries with less room for manoeuvre naturally took more restrictive stances. In assessing the interaction between discretionary measures and built in budgetary stabilization, Fischer and Justo find that about half of the discretionary measures operated on budgetary items already covered by automatic stabilizers whereas the rest relates to investment projects and the support of industrial sectors and vulnerable groups hit by crisis. They conclude that, overall, policies were consistent with agreed principles concerning the provision of discretionary stimuli and that they have strengthened budgetary stabilization in EU countries.

The second paper, by G. Follette and B. Lutz, aims at assessing the interaction of economic developments and fiscal policy in the USA, both at the federal and at the state and local level. The authors estimate that the federal deficit and the overall deficit of state and local governments respectively increase by 0.35 % and by 0.1% of GDP for each 1 percentage point deviation of actual relative to potential GDP. In order to analyze the response of the economy to automatic stabilizers, Follette and Lutz resort to a FRB/US model in which scenarios with and without automatic stabilizers are used to compare the impact of aggregate demand shocks. They also provide estimates of the impact of discretionary fiscal policy actions taken by different levels of government. The authors conclude that, while federal policy actions tend to be counter cyclical, state and local policy actions are generally pro-cyclical.

J. Creel and F. Saraceno focus on the issue of the effectiveness of stabilizers in the European Union, which they tackle using macro and micro evidence. They argue that the importance of automatic stabilization has dwindled, also because of the reduction of the size of government in several countries, and note that this is not consistent with the current EU fiscal framework, which is primarily relying on automatic stabilizers to ensure resilience to shock and income stability. They also refer to a recent literature based on structural VAR models, whose results highlight the importance of discretionary fiscal policies.

By discussing activist fiscal policies during good times, the crisis and the aftermath of the crisis, L. Schucknecht argues that overly imprudent fiscal policies during the boom phase preceding the crisis was due to the excessive

growth of expenditures and to problems in measuring the output gap and the fiscal stance. During the crisis, too much emphasis was placed upon the need for an active fiscal demand support despite the previous demand excesses. The balance sheet nature of the crisis and the significant resource misallocation were not adequately perceived. According to Schucknecht, given the strong increases in public expenditure ratios during the crisis, exit strategies should be necessarily based on the reduction of these ratios to sustainable levels. He thinks that this will help to regain fiscal sustainability and to create an environment conducive to consolidation and growth.

The Editors in Chief of *Revista de Economía y Estadística* are pleased for the possibility to contribute to the diffusion of valuable empirical contributions to the current debate concerning the reaction of governments to international crises, the room for automatic and discretionary fiscal policies, and the evaluation of the effectiveness of fiscal policies. In this connection, we convey our gratefulness to the Banca d'Italia for its permission to reprint the articles.

