John Taylor's Contributions

to Fiscal Policy Analysis

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A Celebration in Honor of John Taylor

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Three of John's Major Contributions to Fiscal Policy Analysis

1. *Macroeconomic Policy in a World Economy: From Econometric Design to Practical Operation* 1993 book

   One of the first policy analyses that rigorously incorporated rational expectations revolution

2. Analysis of automatic stabilizers (i.e. policy rules) vs discretionary fiscal policy

   2000 *Journal of Economic Perspectives* and follow-up papers

3. Real-time analysis of discretionary fiscal stimulus during crises

   - Effects of Bush 2001 and 2008 tax rebates
   - Effects of the ARRA
   - Effects of COVID stimulus

1. 1993 *Macroeconomic Policy in a World Economy*

- One of the first large-scale international macro models that incorporated rational expectations

- Analyzed both monetary and fiscal policy

  - Innovative element: comparison of effects of unanticipated versus anticipated changes in government spending.

  - Analyzing the effects of anticipated future policy was possible only in models where expectations play a key role.

- Serious modeling of policy spillover effects across countries

2. Automatic Stabilizers versus Discretionary Fiscal Policy

"Reassessing Discretionary Fiscal Policy" in 2000 *Journal of Economic Perspectives* and 2009 *AER Papers and Proceedings*

- Describes numerous issues with discretionary fiscal policy, including implementation lags, irreversibility, and political constraints
- Argues that conduct of monetary policy has improved substantially and it can achieve desired outcomes in most instances
- Argues that automatic fiscal stabilizers are better than discretionary fiscal policy because the former are predictable and systematic → less uncertainty that monetary policy must confront
- Considers problem of ZLB, but argues automatic stabilizers are best way to address

3. Analysis of the Effectiveness of Fiscal Stimulus During Crises

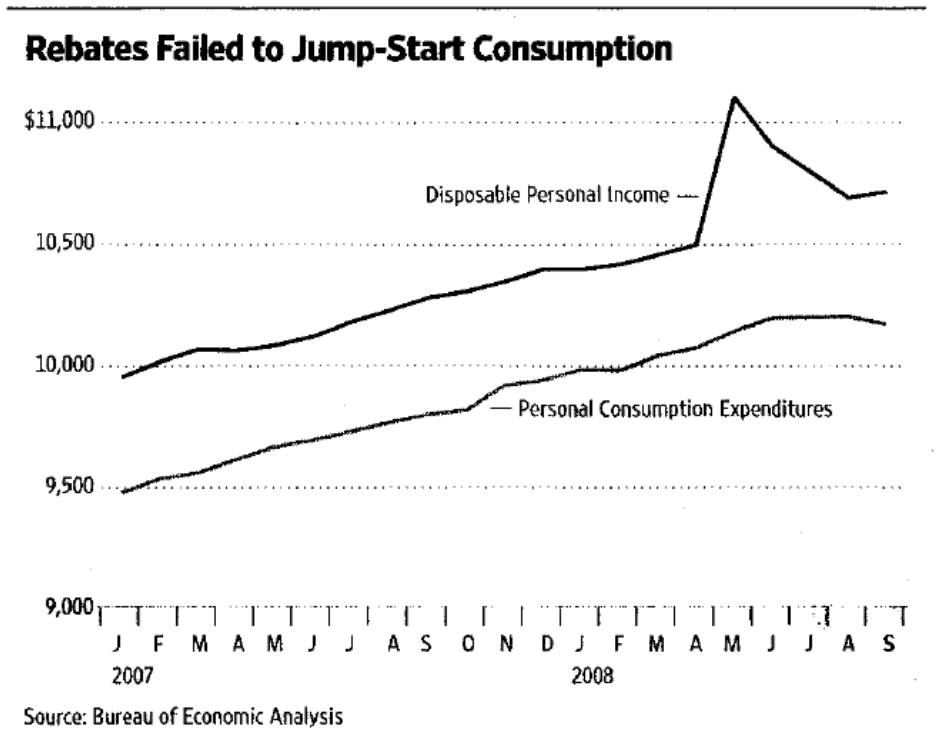
A. Effects of Bush 2001 and 2008 tax rebates

B. Effects of the ARRA

C. Effects of COVID stimulus

3A. On the Effectiveness of Temporary Tax Rebates

Taylor *WSJ* Nov. 2008 on 2008 tax rebates



Source: Bureau of Economic Analysis

2009 *AER Papers and Proceedings*

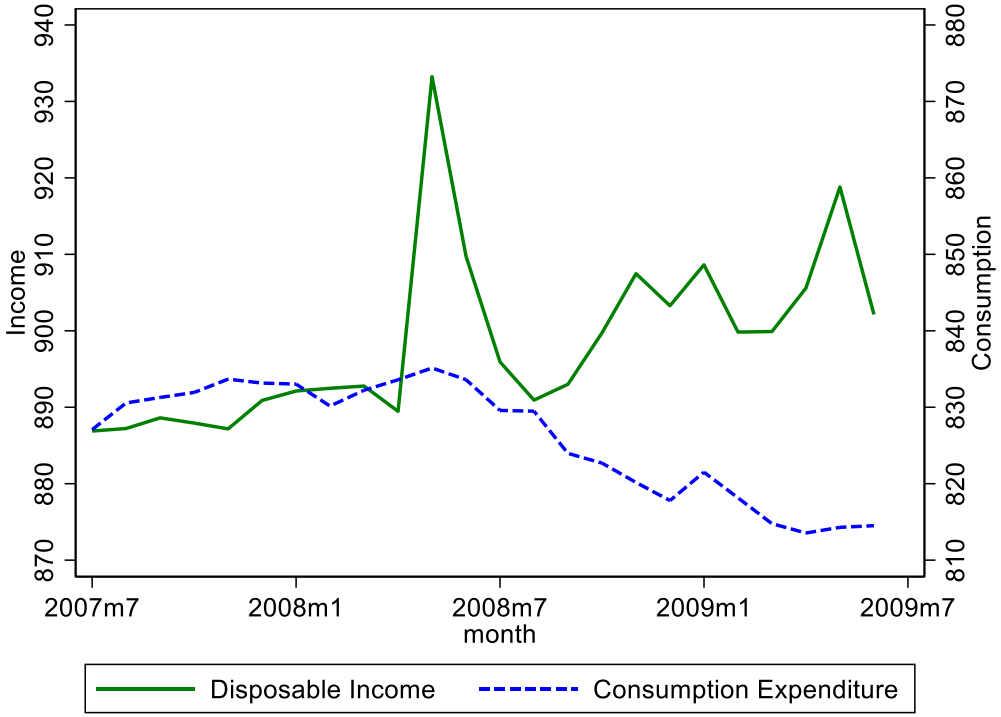
TABLE 2—PCE REGRESSIONS WITH REBATE PAYMENTS

Lagged PCE	0.794	0.832
	(0.057)	(0.056)
Rebate payments	0.048	0.081
	(0.055)	(0.054)
Disposable personal income (w/o rebate)	0.206	0.188
	(0.056)	(0.055)
Oil price ($/bbl lagged 3 months)	—	−1.007
		(0.325)
R^2	0.999	0.999

Notes: The dependent variable is personal consumption expenditures. Standard errors are reported in parentheses. The oil price is for West Texas Intermediate. The sample period is January 2000 to October 2008.

3A. On the Effectiveness of Temporary Tax Rebates (cont.)

His point continues to hold in revised & extended data



Subsequent household-level estimates indicated high marginal propensities to consume (MPC) out of rebates. →

- New macro theories that generated high multipliers
- A rationale for giant payments during COVID.
- My co-authors and I spent the last several years proving that John Taylor was right about the macro effects.

multipliers on rebates were < 0.2.

3B. Effects of the ARRA

Cogan, Cwik, Taylor, Wieland (JEDC 2009) "New Keynesian versus Old Keynesian Government Spending Multipliers"

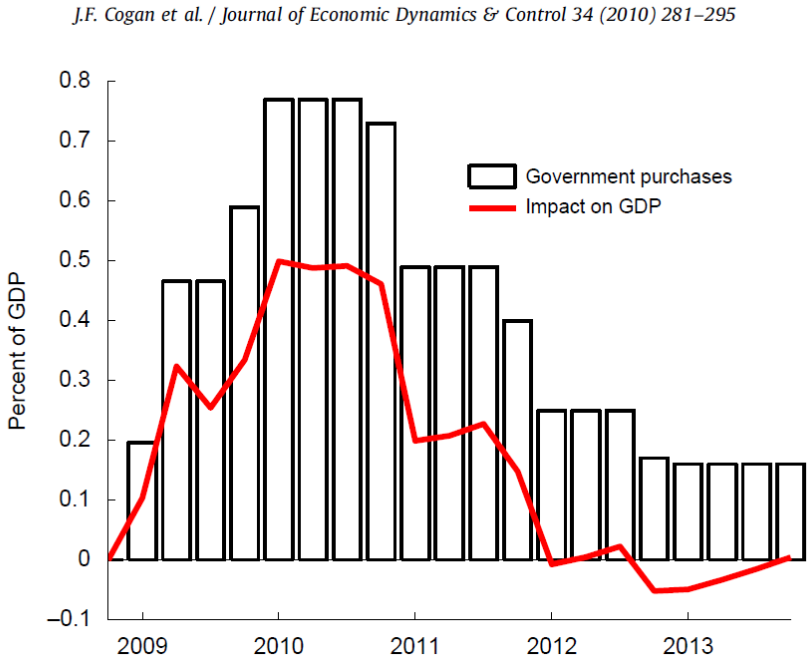
- Circulated first draft in Feb. 2009 – real-time analysis!
- Questioned the Romer-Bernstein "old Keynesian model" prediction for the effects of the ARRA.
- Compared to the new Smets-Wouters medium-scale New Keynesian model predictions.

Table 1
Impact of a permanent increase in government spending by 1 percent of GDP (federal funds rate set to zero throughout 2009 and 2010).

	Percentage increase in real GDP				
	2009Q1	2009Q4	2010Q4	2011Q4	2012Q4
Romer/Bernstein	1.05	1.44	1.57	1.57	1.55
Smets/Wouters	1.03	0.89	0.61	0.44	0.40

3B. Effects of the ARRA (cont.)

More realistic G path



Effect of adding rule-of-thumb consumers

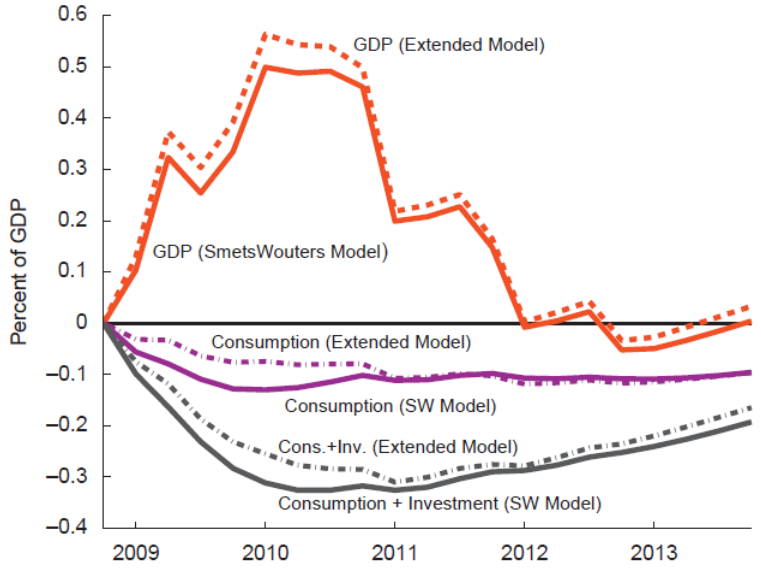


Fig. 4. Estimated impact of ARRA government purchases in new-Keynesian models with and without rule-of-thumb consumers.

Two of my empirical papers in 2019 support Cogan et al.'s quantitative model results

- I show that the cross-state ARRA multiplier estimates fall from 2 to 0.7 when regression weight by population.
- The macro counterfactual implied by ARRA estimates of 2 is implausible.

3C. COVID

Taylor (2021, 2022) "Economic Impact of the Economic Impact Payments"

- Using similar methods as those used for his analysis of the 2008 rebates, he shows that there is no evidence for a significant effect on consumption

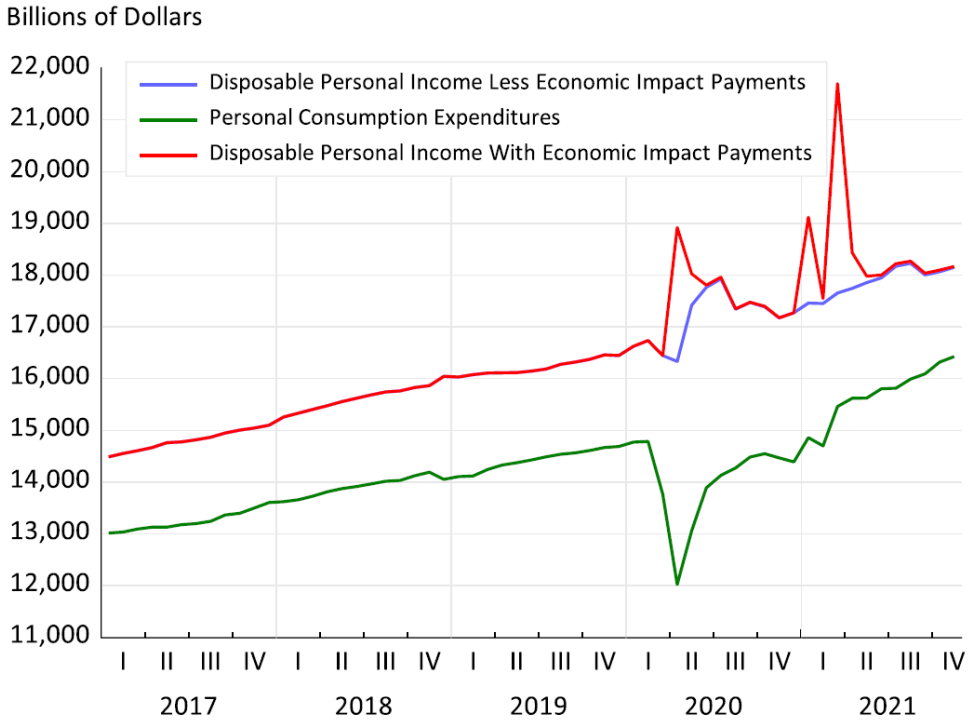


Fig. 3. Economic impact payments and consumption.

Summary

John Taylor's contributions to the analysis of fiscal policy

- Push the frontiers of economic science
- Prescient in the questions asked
- Timely analysis of the most important fiscal policies of our time