Discussion of V. Wieland, T. Cwik, G. J. Mueller, S. Schmidt and M. Wolters

A New Comparative Approach to Macroeconomic Modelling and Policy Analysis

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European Commission / DG ECFIN

March 2010
Summary

The paper offers first results from a software platform created to compare models.

This project provides a great service to both researchers and model builders in policy institutions and should enhance model comparisons in the future.

I have been involved in two model comparison exercises recently, one on comparing structural reform shocks using models from the Commission, EU CBs and finance ministries and a second exercise comparing fiscal shocks conducted by the IMF.

I know from experience that model comparisons are lengthy exercises, which usually require a number of iterations among model builders before one reaches an agreement on common assumptions or before one has removed hidden assumptions.

The need for model comparison exercises will most likely increase in the future. Until the outbreak of the financial crisis some sort of a consensus was found among macroeconomists, the so called New-Keynesian paradigm was dominating model building activities. The paradigm suggested to assume nominal rigidities (Calvo pricing, convex adjustment costs, fixed contracts) for goods and labour markets and assume efficient financial markets, perhaps up to slight differences in the share of liquidity constrained households.

Future vintages of macro models will differ because of the introduction of banking and financial frictions and because no prototype model has so far been developed, and there is a lot of experimentation going on. This will increase the need for comparisons across alternative specifications.

The platform goes some way in facilitating model comparisons by allowing to run models under common rules and thereby eliminating one source of why model outcomes can differ.
My discussion will concentrate on a few remarks on the fiscal shock comparison.
Why not control for differences in persistence of the fiscal shock? Persistence makes a difference with Ricardian Households.

What explains the difference of the multipliers? Financial constraints? It would be interesting to see the C response.

Note: Combination of G and IG
The paper concludes:
Estimates of fiscal multipliers implied by government advisers are far to optimistic and not robust to model uncertainty.

Let me therefore compare these results to a recent model comparison exercise on fiscal policy conducted by policy institutions.
The multiplier depends strongly on the zero bound constraint.

This has been emphasised by policy institutions.
Figure 1: Effect of 2 Years of Fiscal Stimulus on Real GDP. Instrument = Government Investment
Figure 2: Effect of 2 Years of Fiscal Stimulus on Inflation and the Real Interest Rate, Instrument = Government Investment, Region = United States

(In percentage points)

Inflation

No Monetary Accommodation

Real Interest Rate

1 Year of Monetary Accommodation

2 Years of Monetary Accommodation
The exercise also raises some general issues:

How well does the platform take into account specific fiscal rules

Debt rule (deficit vs. debt target, alternative revenue and expenditure items).
Tax rules (linear vs. progressive rules).
Transfer rules:
  Absence or presence of unemployment benefits.
How are transfers indexed to VAT for example.

The platform should also allow to run models under alternative assumptions about financial frictions:

Share of liquidity and/or credit constrained consumers.