

COMMENT ON "GOVERNMENT SPENDING
MULTIPLIERS UNDER THE ZERO LOWER
BOUND: EVIDENCE FROM JAPAN"
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February 10, 2017

Government Spending Multiplier under ZLB

SUMMARY

- **Using data from Japan, find the fiscal multiplier is higher (1.5 on impact) in ZLB period (1995Q4-2014Q1) than in the normal period (1980Q1-1995Q3) (0.6 on impact)**
- **Fiscal multiplier in recessions are larger (2.3 on impact) than in expansions (0.8 on impact), but this does not explain the result because Japan was in recessions more often (45% of time) in the normal period than in ZLB period (30%)**
- **Results are consistent with a simple New Keynesian model that generates ZLB through self-fulfilling loss of confidence if government spending is not very persistent (auto-regressive coefficient around 0.8)**

COMMENTS

- **Very good paper**
 - **No complaints**
 - **Suggestions for future papers?**
1. **More recessions before 1995Q4?**
 2. **Robustness check on tax rate**
 3. **Average duration of ZLB in calibrated New Keynesian models**

1. MORE TIME IN RECESSIONS IN NORMAL PERIOD

- **But the recessions in ZLB period were much worse**

Average Growth Rate (annual)	1981Q1-1995Q3	1995Q4-2014Q1
Expansions	4.2%	1.4%
Recessions	2.8%	-0.8%
Growth < 1%	15%	46%
Growth < 0%	3%	27%

2. ROBUSTNESS CHECK ON TAX RATE

- If the response of tax revenues to spending shock is different between the normal period and ZLB period, this could explain the difference of multipliers
- Paper finds the tax revenue rises more in ZLB period than in the normal period following a spending shock
- This difference cannot explain the *larger* multiplier during ZLB period *if higher tax rate is contractionary*
- But is it OK to assume contractionary tax increase? Non-Keynesian effect?
- Keiko Kameda (2012). “Estimating Non-Keynesian Effects for Japan,” *Asian Economic Policy Review*, 7:2, 227-243. finds that tax increases influence the output positively if the primary deficit is 3% of GDP.

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3. AVERAGE DURATION OF ZLB

- **ZLB period lasted for 8 years (and longer) in the data**
- **The average duration of ZLB in the calibrated model is 2 years (for the fundamental model) and 5 years (for the sunspot model)**
- **Short ZLB duration is related to the difficulty for the model to generate high fiscal multiplier under ZLB**
- **Duration shorter than the Japanese experience is assumed to get the unique equilibrium**
- **Does the equilibrium have to be unique?**