

Should Fiscal Policy be Set by Politicians?

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 - that's better than any other region of the world except North America

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- no corresponding centralization of *fiscal* policy (taxation, public spending, debt)

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- fact that monetary policy was centralized made things *worse* for Greece
 - when got into debt trouble couldn't devalue currency

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- but fair to say that fiscal policy still far less consolidated than monetary policy

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- specifically, create a *nonpolitical* body that has power to:
 - set *binding* spending and revenue targets in member countries
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- that is, power to set fiscal parameters taken out of politicians' hands and given to technocrats

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- but first let me try to justify it informally

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 - officials are *unaccountable*
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- good reasons for that

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J. Schumpeter: “The private citizen expends less disciplined effort on mastering a political problem than he expends on a game of bridge”

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- official may have objective different from social welfare (noncongruence)

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- (2) allows public to “weed out” official whose interests shown to be noncongruent with theirs

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 - e.g. Obama stimulus plan in 2009 was not judged “success” by most economists until 3 or 4 years later

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- not a problem that President Obama faced when deciding on stimulus plan

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 - perks of office

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$U_i =$ payoff from period i decision (G or 0)

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$$W^B = 2\pi$$

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- this is formal justification for unaccountability in *technical fiscal policy*

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 - but this won't happen automatically