

The Macroeconomic and Distributional Effects of Public Investment in Developing Economies

Davide Furceri, Bin Grace Li (2017)

Discussion by Yi Huang

Assistant Professor, International Economics
Pictet Chair in Finance and Development
Graduate Institute, Geneva

Workshop on “Macroeconomic Policy and Income Inequality”

1

Main Contributions

- Long-term effect of public investment on output
 - Public investment has a **positive and long lasting** effect on the level of output and **productivity**.
 - **Note:** How to measure it between tradable vs. non-tradable sectors?
 - How to take into account the initial condition and local financial development?
- The relationship between public investment and inequality
 - Public investment **reduces** income inequality for EMDEs.
- Role of investment efficiency
 - Countries with **greater** efficiency of public investment get a bigger bang for their buck.
 - Countries with **greater** infrastructure gap get higher output and inclusiveness effects from public investment.
 - **Note:** How about development banks like ADB, EBRD and AIIDB?
 - How about the PPP(Private-Public-Private Relationship)

Measures and Main Identification

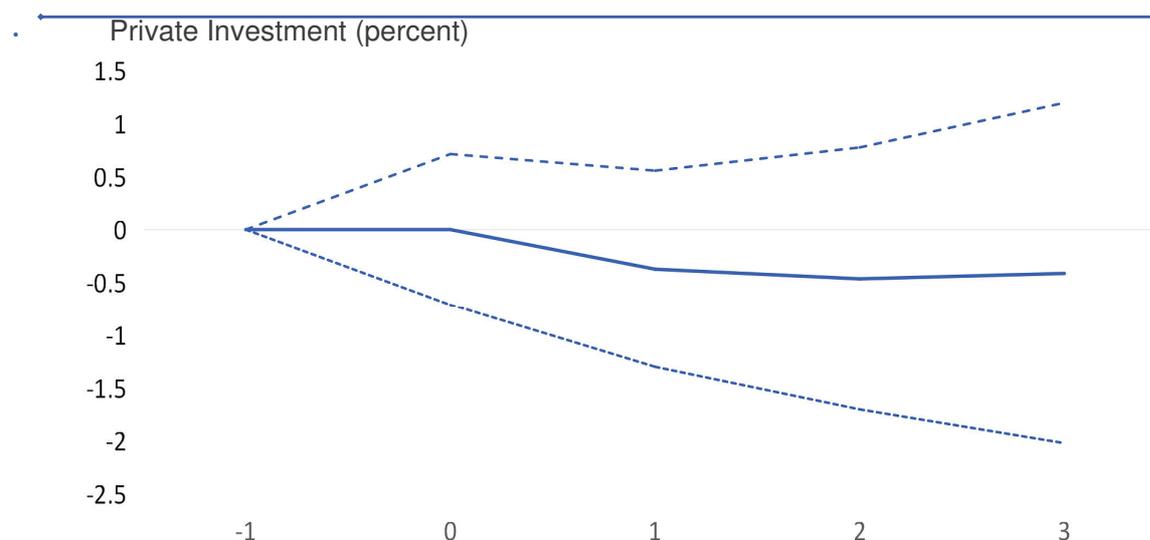
- Unbalanced panel of 74 EMDEs from 1991 to 2015
- Public investment shocks: **the forecast errors** between the actual public investment and the public investment expected by analysts as of WEO October of the same year following Auerbach and Gorodnichenko (2012, 2013)

Comments:

- Auerbach and Gorodnichenko (2012) use regime-switching models/STVAR, to estimate effects of tax and spending policies that can vary over the business cycle: **recessions and expansions.**
- Blanchard and Leigh (2013a, 2013b) show during the recession multipliers were **larger** than expected.
- Ramey (2009) and others, **unanticipated** shocks and the **timing** of fiscal shocks plays a key role in identifying the effect of fiscal shocks.

3

Channels between public investment and Investment



No evidence of crowding out private investment

Interest Rate channel (Blanchard, 2008)

Credit Rationing channel (Huang, Pagano and Panizza, 2016)

Financial Friction /Credit constraints (Cong and Ponticelli, 2016)

Political connection? (Cohen et al. 2011)

4

Footnotes from Geneva: complementing evidences

Public Debt and Private Firm Funding: Evidence from Chinese Cities

Yi Huang
The Graduate Institute, Geneva

Marco Pagano
University of Naples Federico II,
CSEF, EIEF, CEPR, and ECGI

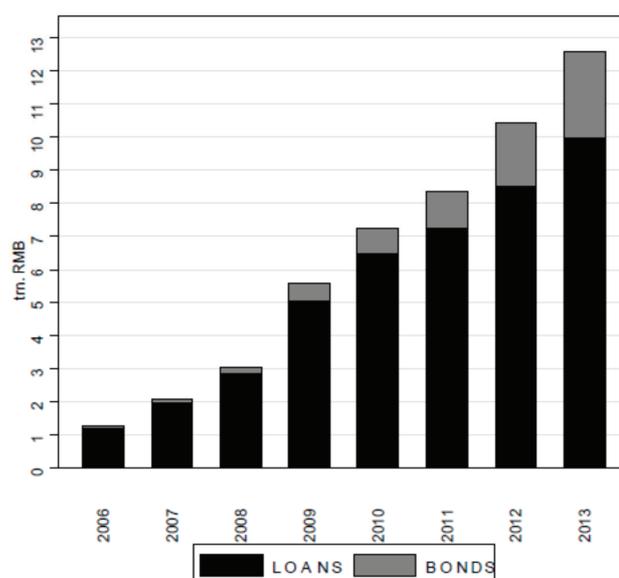
Ugo Panizza
The Graduate Institute, Geneva
and CEPR*

July 2015
(This version: August 2016)

5

Composition of Local Government Debt Matters

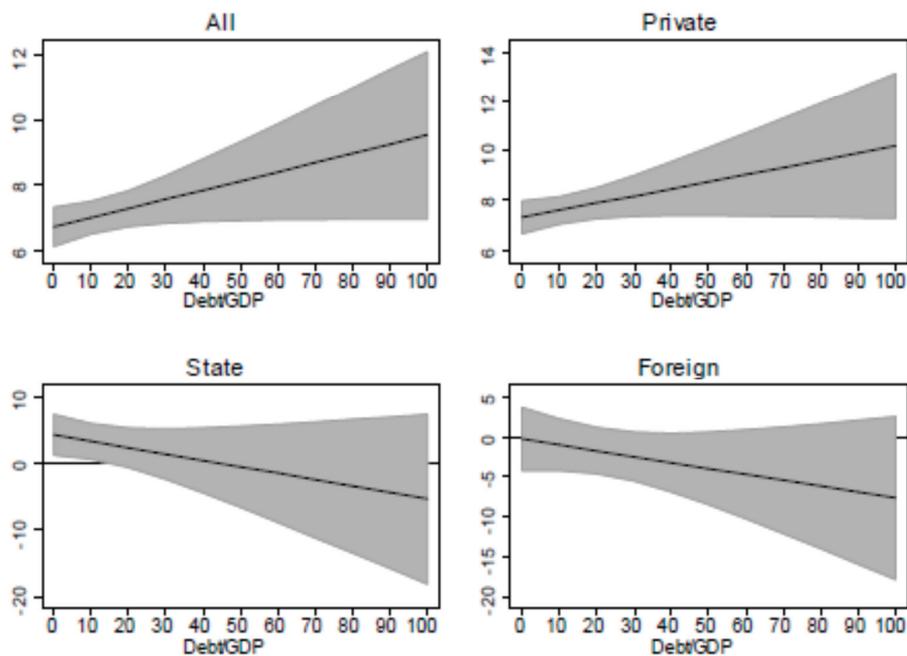
Figure 1: **Local Government Debt in China: Bonds and Loans.** This figure plots the composition of total local government debt in China divided between outstanding bonds and other financial liabilities.



Source: Yi Huang, Marco Pagano and Ugo Panizza (2016)

6

Local Government Debt and Investment Sensitivity to Cash-Flow



Source: Yi Huang, Marco Pagano and Ugo Panizza (2016)

7

Conclusions

- Very interesting paper with policy implication: enjoy reading it and learn a lot.
- Few practical suggestions on the measurement, identification and channels.
- Suggest reference: Fuchs-Schündeln and Hassan(2016): chapter in [Handbook of Macroeconomics](#)

8