

# The Macroeconomic and Distributional Effects of Public Investment in Developing Economies

Davide Furceri, Bin Grace Li (2017)

Discussion by Yi Huang

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Workshop on “Macroeconomic Policy and Income Inequality”

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## 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

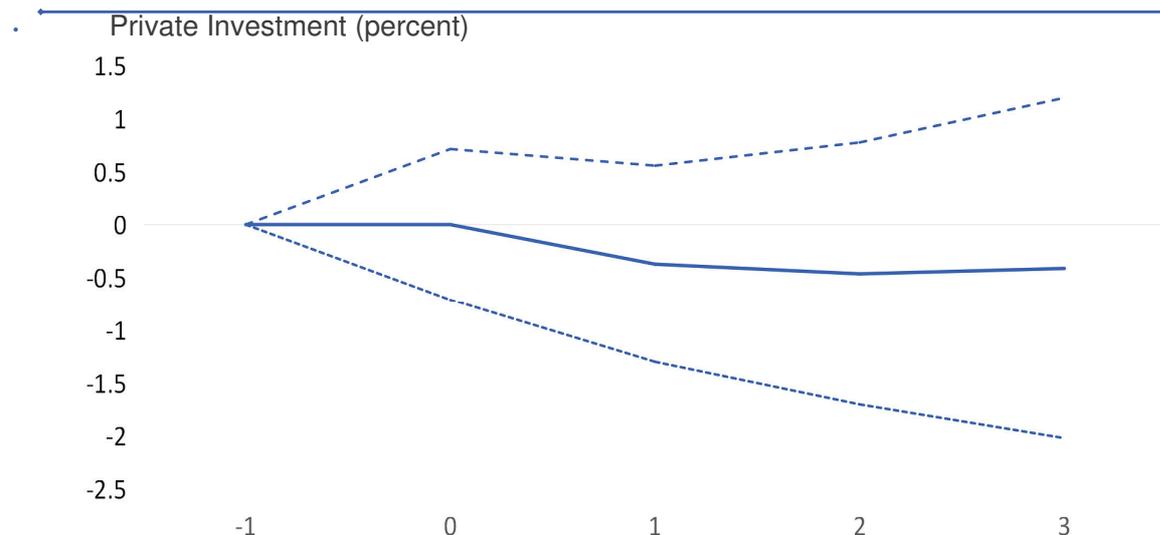
- Unbalanced panel of 74 EMDEs from 1991 to 2015
- Public investment shocks: **the forecast errors** between the actual public investment and the public investment expected by analysts as of WEO October of the same year following Auerbach and Gorodnichenko (2012, 2013)

### 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.

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## 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)**

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## Footnotes from Geneva: complementing evidences

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### Public Debt and Private Firm Funding: Evidence from Chinese Cities

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

Ugo Panizza  
The Graduate Institute, Geneva  
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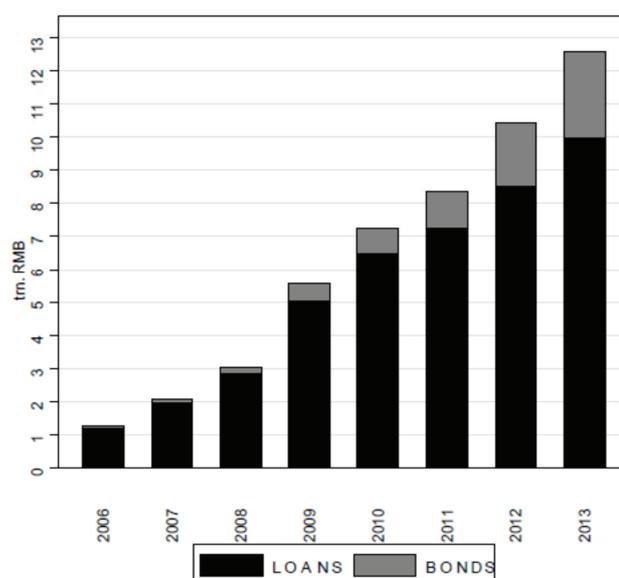
July 2015  
(This version: August 2016)

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## Composition of Local Government Debt Matters

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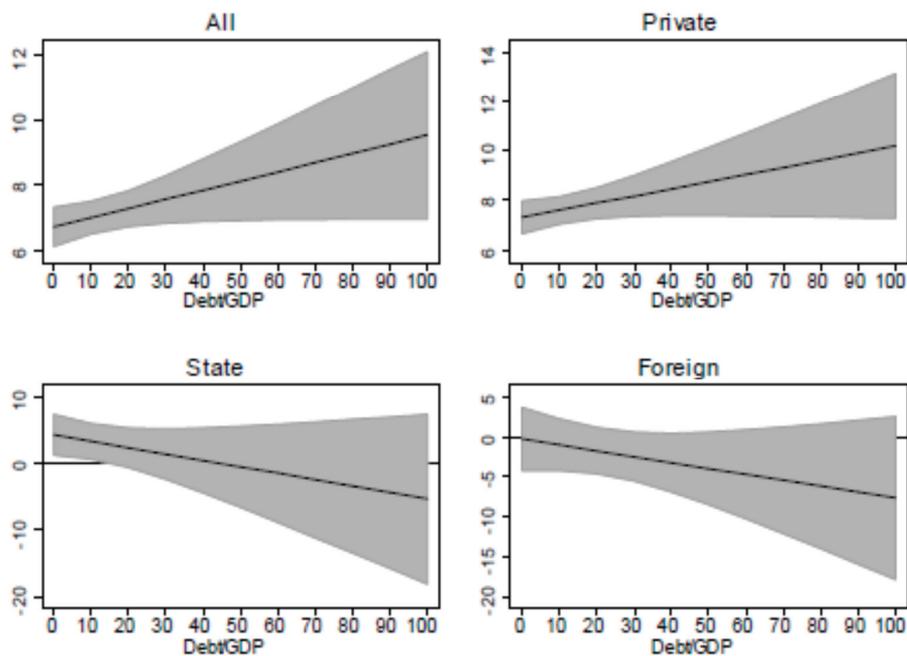
Figure 1: **Local Government Debt in China: Bonds and Loans.** This figure plots the composition of total local government debt in China divided between outstanding bonds and other financial liabilities.



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

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## Local Government Debt and Investment Sensitivity to Cash-Flow



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

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## 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](#)

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