

Referee Report for Economics – Open-Access E-Journal

MS 772 - Structural heterogeneity and partial budgetary cooperation in a monetary union

This report makes three main points, and a conclusion

1. Relation to literature.

The most recent paper quoted by the author is from 2007. All the other references are from 2003 or before.

The author ignores the survey paper by Beetsma and Giuliodori, JEL 2010 (which focuses exactly on the same topic as the paper's), and most references therein.

2. Relevance of the approach.

The paper discusses issues of FP coordination in a pre-crisis, debtless environment.

This seems rather esoteric in the current years. Three issues that (in my opinion) any discussion of FP coordination and/or of constraints on national FP should take into account (in order to be of some interest to some potential readers) are:

- the public debt implications of potentially unconstrained/undisciplined national FP,
- the asymmetry in the MP transmission induced by default risk premia on government bonds
- the relations between FP and MP in relation to the zero-bound on nominal interest rates

The paper only makes passing references (but does not incorporate formally into the analysis) to the first issue, on pp.11-12. Thus the overall relevance of this approach seems quite limited.

3. Framework of analysis

- The main purpose of the paper is to explore benefits of budget cooperation, which is defined by the fact that national budgetary authorities jointly minimize a loss function defined over a sub-group of countries (within the MU), which share some homogeneous characteristics with respect to their policy multipliers and sensitivity to spillovers. But even this kind of cooperation is not fully defined, as the paper does not explain, or at least is very obscure on the issue how the "aggregate" FP stance within the group is translated into each country's own FP stance.
- Another issue which is not at all explained is the relation between country heterogeneity and asymmetry of shocks. Is the incidence of asymmetric shocks between countries related to their having more or less structural homogeneity?
- In section 5 and 6 the author analyzes the FP reactions to different shocks. I find it hard to keep track with the taxonomy of these exercises. This difficulty is reflected in the conclusions, where the author proposes a rather vague sets of normative conclusions, all qualified by words such as "usually", "often", "sufficiently", to each of which is almost impossible to assign a precise quantitative boundary.

Conclusion.

Overall, the paper appears to have been written in reference to a set of issues, and to a specific literature, both of which have been replaced (in the policy as well as in the academic debate) by more recent themes and issues. Even in the context of the "old" debates, however, the paper is vague (with respect to the specific object of its analysis) and inconclusive.