

Abstracts

Do fiscal frameworks matter for public finances?

Fiscal rules are legislative agreements intended to mitigate deficit bias by tying the hands of policy makers in order to obtain sustainable public finances. In this paper we focus on the question whether national fiscal rules provide stronger fiscal discipline. In particular, we find that the frameworks in force in Denmark and Sweden have indeed contributed to sound public finances in these two countries. This result is consistent with the general conclusion from the literature that fiscal rules have positive effects on primary balance surpluses. However, we also find that fiscal policy has become more pro-cyclical in Sweden but not in Denmark in the period when fiscal rules have been in force. This suggests that the specific design of the fiscal rules is important, rules must support a counter-cyclical fiscal policy. Well-designed fiscal rules together with efficient governments promote fiscal sustainability.

Impact analyses and fiscal policy making

This paper discusses methodological issues regarding impact analyses of economic policy decisions, and recommends that such analyses should be a central part of fiscal policy decision making. Fiscal policy measures often contain both direct budgetary effects and structural («dynamic») effects on potential output and employment. While the estimated structural effects provides important information for fiscal allocation priorities, overall fiscal policy should avoid being calibrated on the basis of expected gains from such estimates as they are usually surrounded by high uncertainty. Rather, overall fiscal policy should be based on comprehensive medium-term projections, including overall assessments of fiscal sustainability and the economy's potential output and employment. If structural economic developments should prove more favourable than envisaged, fiscal outcomes would also be more favorable, thereby providing confirmed space for fiscal easing at a later stage.

Tax policy and effect estimates

Estimating the effects of changes in tax policy requires addressing specific analytical questions, such as the incidence of the change and its effects on citizens' behavior. The article discusses several of these questions and provides an example of how various parametric assumptions can affect estimated structural effects. The article also argues that effective prioritization requires factoring in estimated behavioral effects, even if these estimates can have high uncertainty and models can fail to capture all relevant effects.

When modelling in the Ministry of Finance takes control

This paper analyzes the use of formal macroeconomic models by experts and civil servants presenting economic policy advices. Firstly, the arguments for using an explicit macroeconomic models are discussed from the viewpoints of relevance and validity. We then present the specific »model set-up« (ADAM + DREAM) which is used by the Ministry of Finance, and how it has been employed when short, medium and long term macroeconomic projections have been undertaken during the period of 2011-2014. Subsequently, a number of »ad hoc« modifications to the model set-up made by the Treasury are presented and discussed critically in the perspective of relevance and empirical validity. In the second half of the paper the new Budget Act of 2012 which assigns the role of being a kind of fiscal policy super-judge to the civil servants of the Treasury Ministry (and the Economic Council). They are asked to judge by the use of the modified model set-up, whether the proposed fiscal policy by the government is in accordance with the explicit limits expressed in the Budget Act concerning the size of the »structural budget deficit« and the long term »sustainability of public fi-

nances«. The controlling role related to the institutions of »fiscal watch-dogs« is implemented all over Europe as a consequence of the Fiscal Compact agreed by the European Council of heads of governments. Within the final section of the paper a genuine surprise is expressed, why the European politicians, including the Danish Government, through specific legislation has waived their right to control the overall macroeconomic within their own country and within Europe considered as a whole. A tentative answer is given by referring to the economic theory behind the macroeconomic models used all over Europe. Within these models an »a priori« assumption is employed: that the market economy is self-stabilizing and self-optimizing (like the Danish ADAM+DREAM model). Within these neoclassical models an active fiscal policy appears as an obstacle to the assumed market-driven adjustment process towards stable economic growth.

Economic models: Useful, when applied correctly

Economic models are extremely useful for predictions and impact assessments, but they are far from the whole truth. It is precisely their strength that they create a simplification that makes it possible to identify key mechanisms in the complicated and confusing real world. They put the focus on the effects the user is particularly interested in. This means that such models should be used, and their results be interpreted, with considerable care and understanding of the nature of the model. Their limitations must be recognized, and they are consequently not particularly suited as a basis on which to make judgements in disputes of what makes a good society in the long term. But the media and politicians have a tendency to attribute an unreasonable authority to such calculations – at least if they agree with the results. This, however, does

not change that such models are an extremely useful tool, if used with care and diligence.

Randomized controlled trials and other experimental designs in Denmark

This article focuses on structural, ethical and cultural challenges in relation to conducting randomized controlled trials (RCTs) in the social and welfare policy area in Denmark. Evidence on causal effects of social interventions are crucial in the effort to strengthen the Danish social system and to ensure best value for money. And in theory, RCT is the best method to determine these causal effects. In practice, however, there have been several challenges in relation to conducting RCTs in Denmark, including problems establishing control groups, challenges in the collaboration between research and practice and challenges in relation to the traditional ways of designing social interventions. There are also other (quasi-experimental) methods to estimate effects which can be used in cases where RCTs are not possible, but these methods implies various methodological disadvantages that may cause the estimates to be inaccurate.

Searching for the effects of export promotion: Evaluating the effects of the Danish Trade Council's export promotion in African countries 2011-2013

Over the years, African markets have caught the eyes of foreign exporters. Also, Denmark and Danish exporters have discovered the opportunities on African markets, and for some time export promotion in African countries has been a priority for the Danish Ministry of Foreign Affairs. This study seeks to estimate the effects of Danish export promotion conducted by the Danish Embassy in Accra, Ghana. The results indicate that Danish export promotion has affected Danish export to African countries positively. However, several of the caveats and challenges that arise when effects of export promotion are estimated, are identified, which leaves the results with some reservations. Finally, the growing interest in Denmark for effect quantification in the evaluation of export promotion is discussed.