

Summary of Comments on “The budget crisis: Is it all déjà vu?”
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My first comment is whether we are intelligent enough to make a reliable prediction about future budget surplus/deficit? After playing around a CBO dataset, I found that projection errors about primary surplus, which are defined as the difference between CBO projection and actual values, are not random, but contain some systematic components. It seems that CBO projections are made by adaptive or static expectations, rather than rational expectations. Moreover, according to recent researches by the CBO, the confidence interval of prediction is not small. These evidences indicate that it will be very dangerous to rely on a specific scenario about future evolution of fiscal surplus/deficit.

My second comment is about a new role of fiscal policy in a very low inflation environment, or in a liquidity trap. According to recent researches on the liquidity trap, it arises because (1) natural rate of interest falls below zero, (2) but the central bank cannot lower nominal interest rates below zero, (3) consequently, real interest rates (nominal rates minus expected inflation) become higher than the natural rate counterpart. In this circumstance, monetary policy seems ineffective, so that some help from fiscal policy might be needed. For example, some argue that if the government becomes a Non-Ricardian, then the economy might be able to escape from the liquidity trap. However, as shown by the Japanese recent experiences, it might be very difficult for the government to deviate from Ricardian fiscal policy rule.