Discussion of "Monetary Policy and Local Fiscal Policy"

by Siani & Zhang

Masao Fukui

September 2025

My Discussion

1. Why and when does fiscal policy response matter for monetary transmission?

2. What do we know about it empirically?

3. Why are fiscal responses delayed?

Canonical HANK Model

- Given $\{r_t, Y_t, T_t\}$, households solve

$$V_t(a,e) = \max_{c_t, a_{t+1} \geq \underline{a}} u(c_t) + \beta \mathbb{E}[V_{t+1}(a_{t+1}, e')]$$

$$\text{s.t.} \quad c_t + a_{t+1} = e\,(Y_t - T_t) + (1 + r_t)a_t$$

$$\Rightarrow \quad \mathscr{C}_t(\boldsymbol{r}, \boldsymbol{Y} - \boldsymbol{T}) \equiv \int c_t(a,e)\,d\mu$$

- Monetary policy sets $\{r_t\}$ and fiscal policy sets $\{G_t, T_t, B_{t+1}\}$ subject to

$$G_t + (1 + r_t)B_t = B_{t+1} + T_t$$

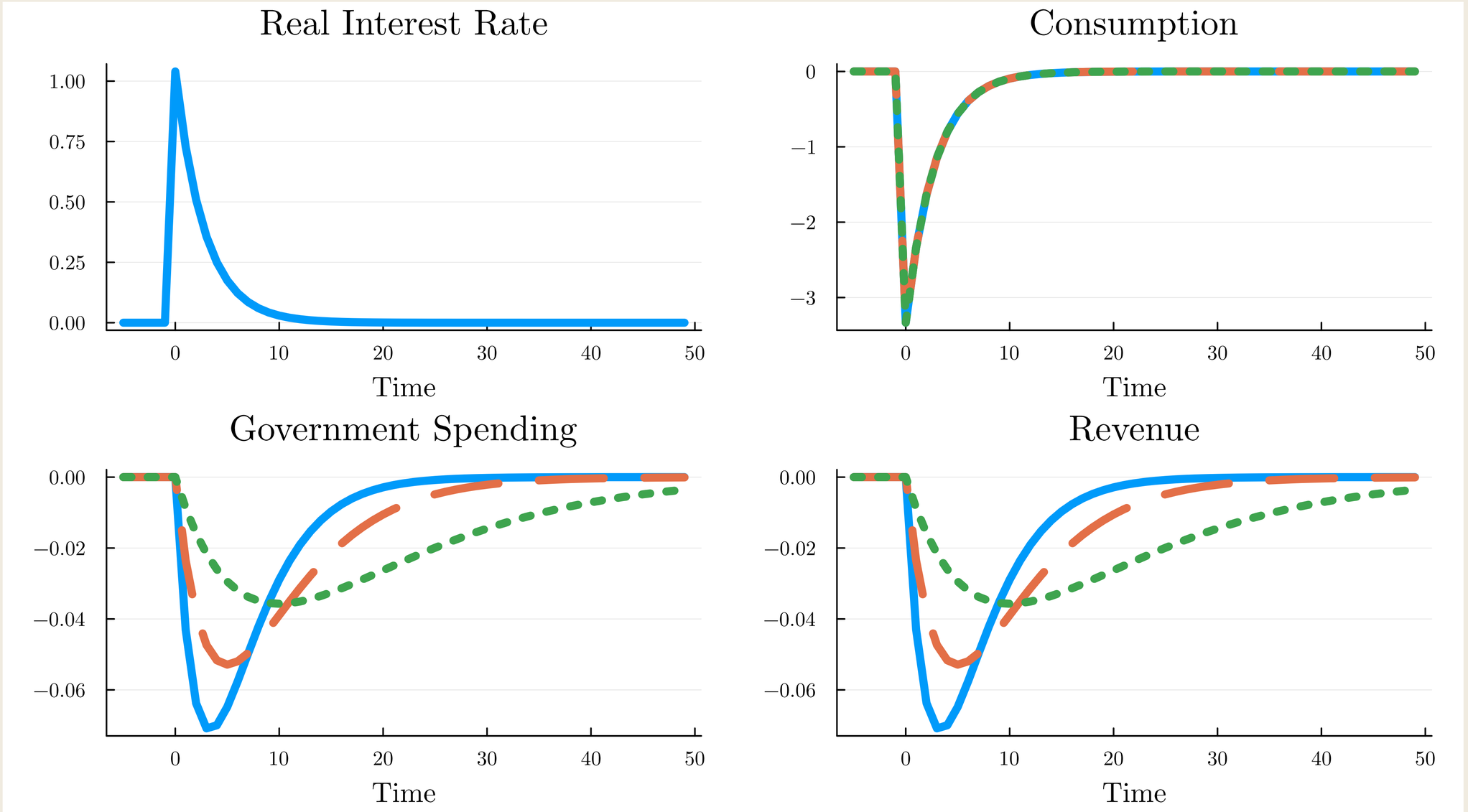
- Equilibrium: given monetary and fiscal policies, $\boldsymbol{Y} \equiv [Y_t]_t$ solves

$$Y_t = \mathscr{C}_t(\boldsymbol{r}, \boldsymbol{Y} - \boldsymbol{T}) + G_t$$

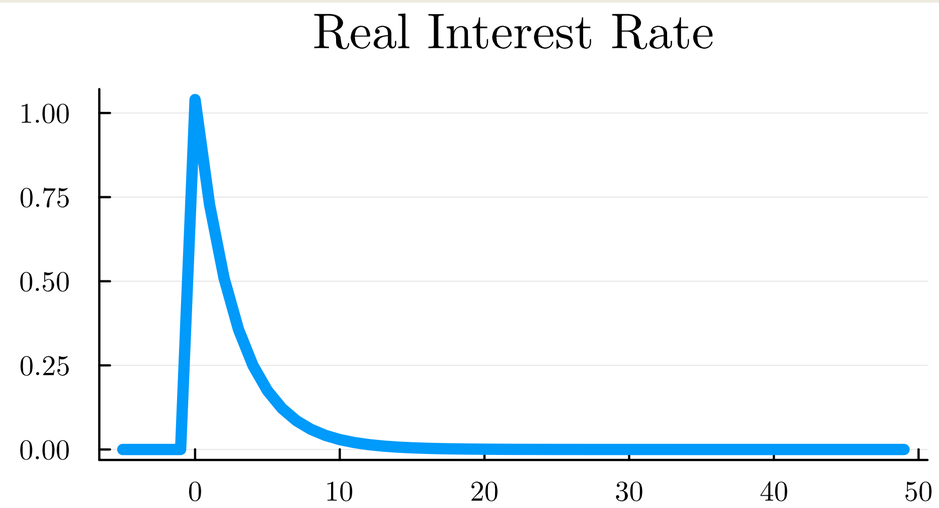
- Perturb to obtain

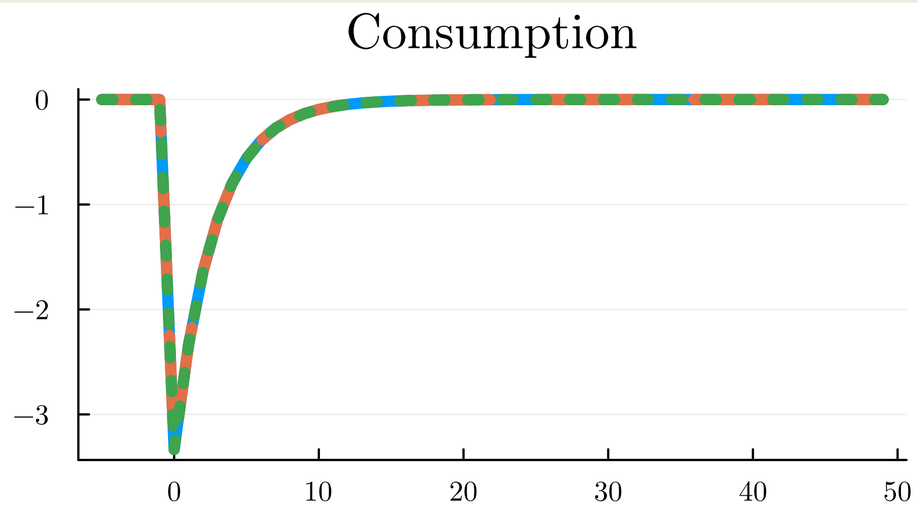
$$d\boldsymbol{Y} = \mathbf{M}_r d\boldsymbol{r} + \mathbf{M}_Y d\boldsymbol{Y} - \mathbf{M}_Y d\boldsymbol{T} + d\boldsymbol{G}$$

Balanced Budget Case



Balanced Budget Case





Government Spending

Revenue

Result (Corollary of Proposition 3 in Auclert-Rognlie-Straub, 2024)

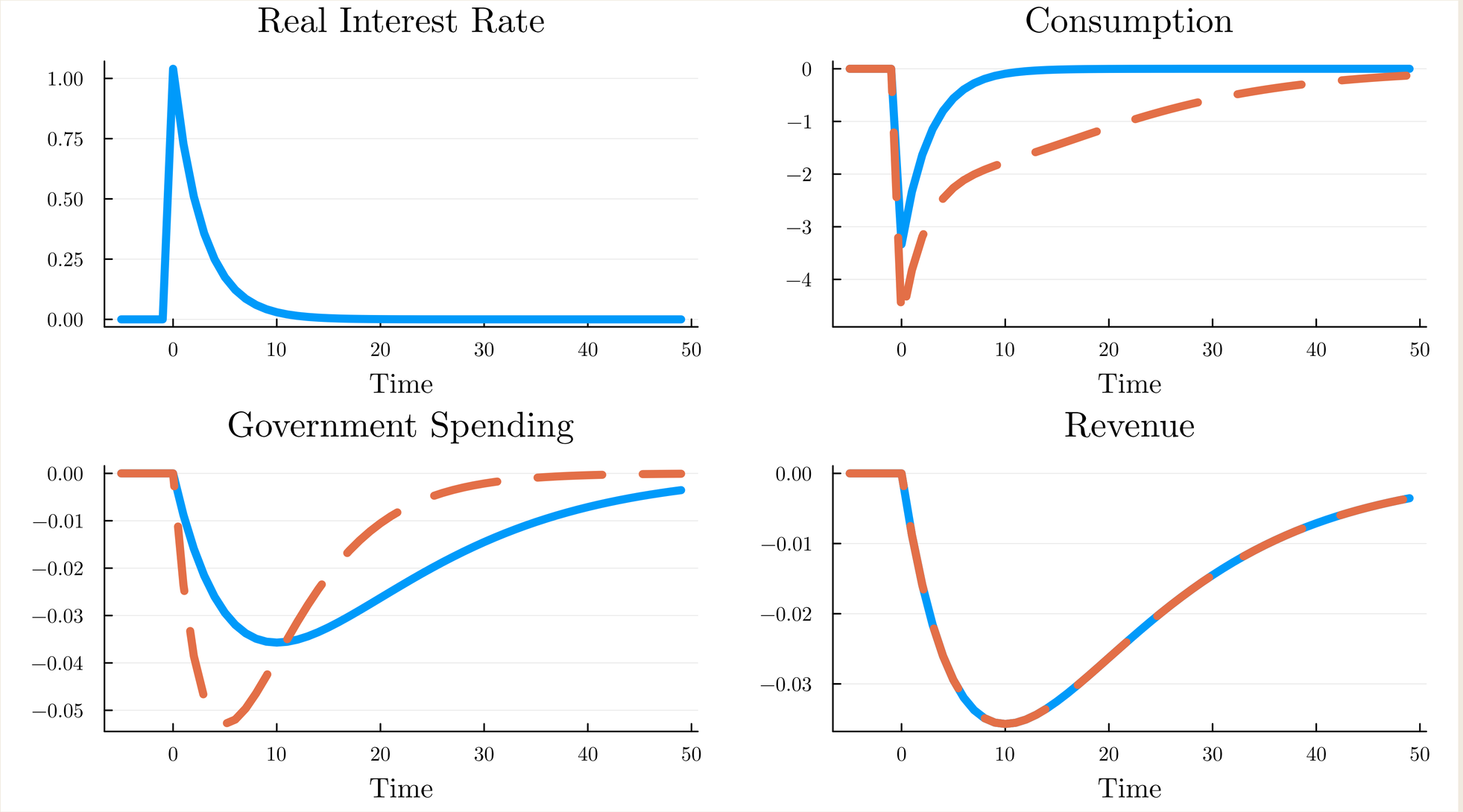
Assume balanced budget, $dG = dT$, and fix dr.

Then, dC is invariant to dG.

Time

Time

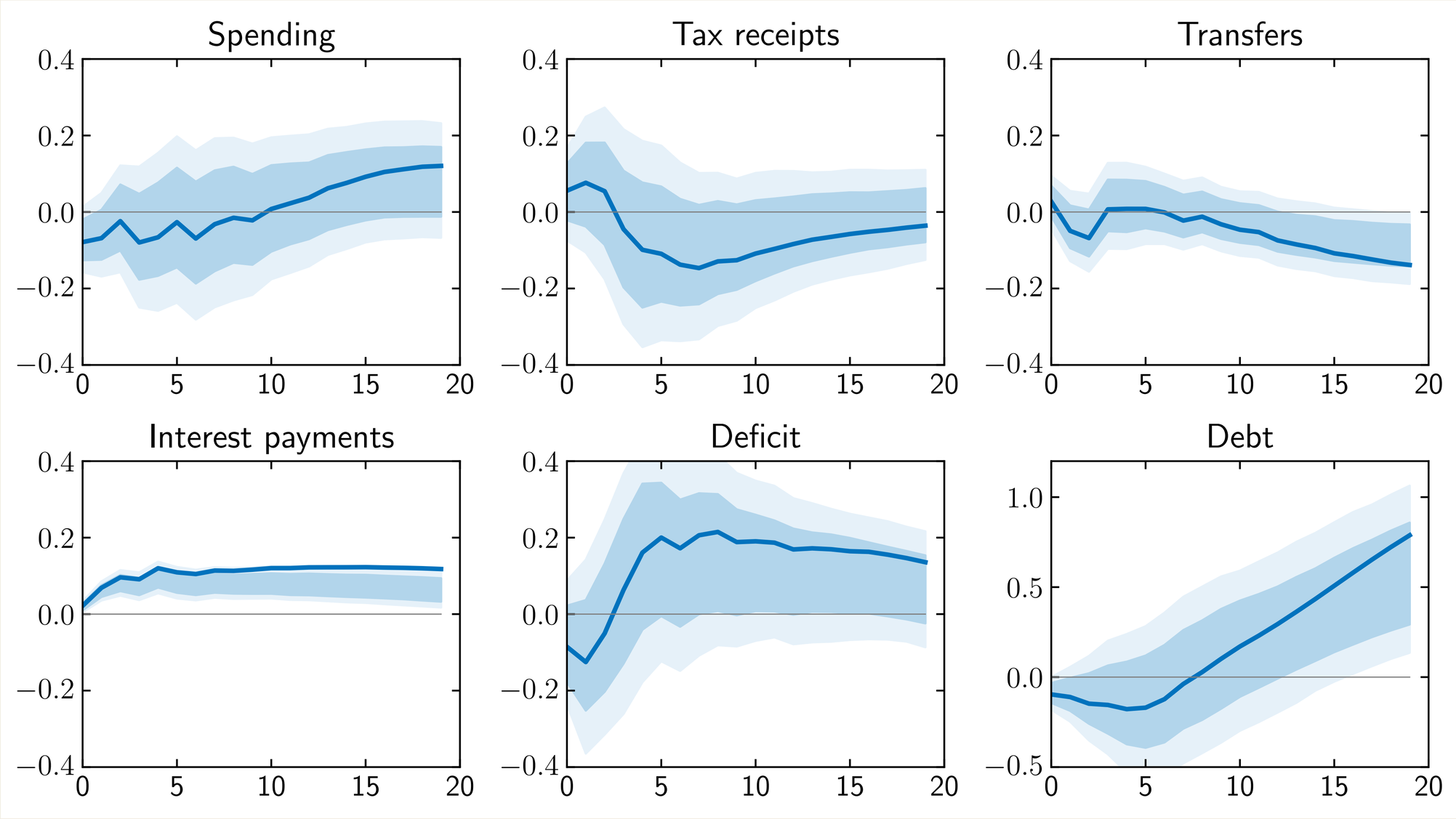
Away from Budget Balance



What Do We Know Empirically?

- The **difference** in dG and dT critical in monetary policy transmission
- What do we know empirically about dG and dT in response to the MP shock?
- **Federal**: Bouscasse & Hong (2023)

Bouscasse & Hong (2023)



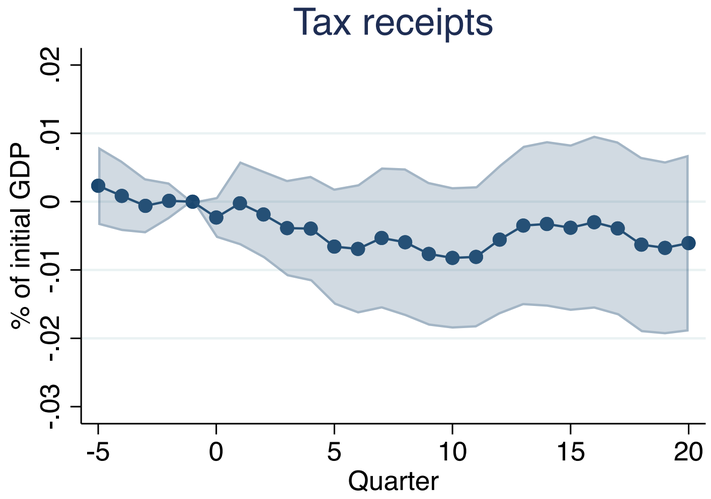
No Existing Estimates for State & Local

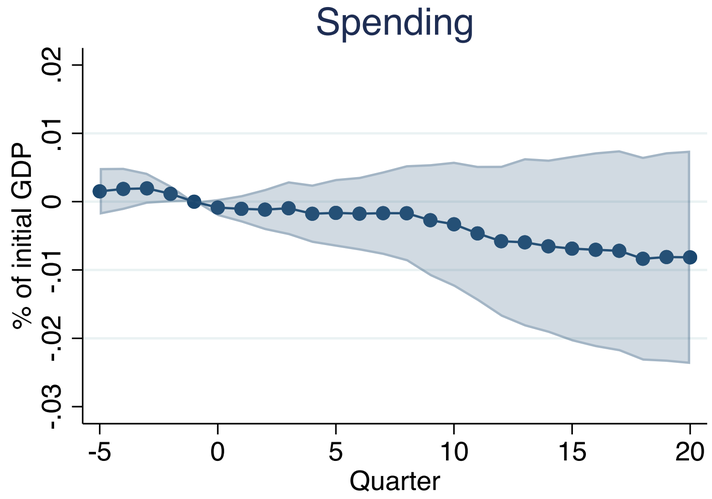
- Should we expect state & local fiscal policy to be very different?
- Siani-Zhang (2025):
  - Yes!: *"constitutional balanced-budget requirements in all states except Vermont mandate that current operating expenses be covered by current revenues rather than debt financing"*

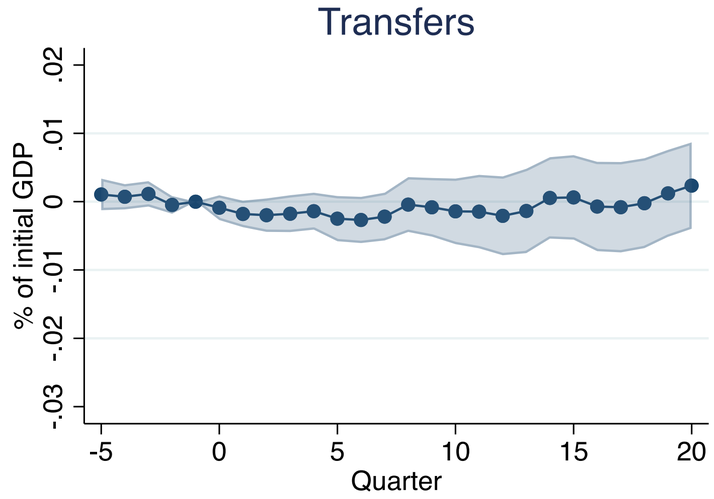
$$\Rightarrow \quad dG = dT \ ?$$

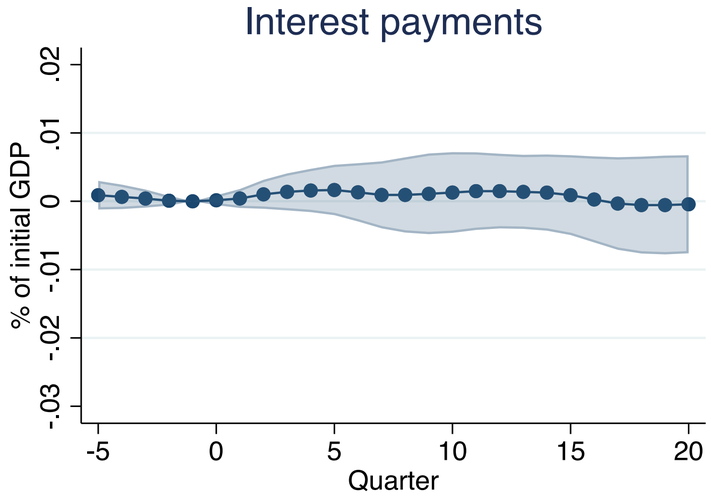
  - but also: *"delayed state spending slows the transmission of monetary policy to consumption"*
- Quite to the contrary, delayed spending is irrelevant if $dG = dT$
  - The overall framing of the paper can be better posed
- But from a purely descriptive perspective, how different is it?

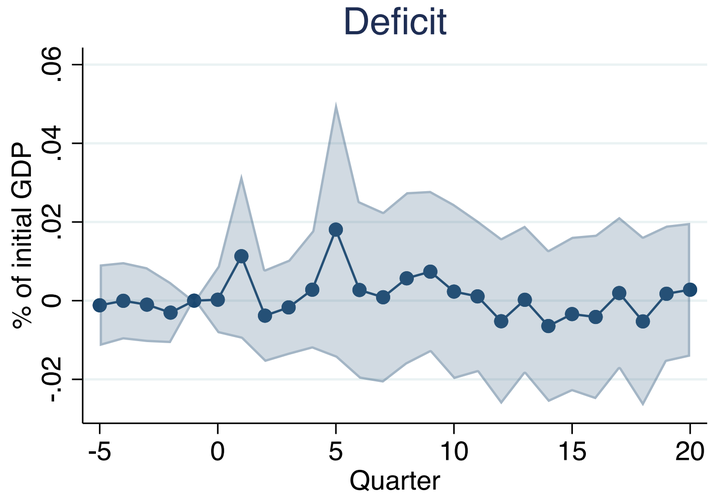
$$\frac{y_{t+h} - y_{t-1}}{GDP_{t-1}} = \beta_h MPS_t + \alpha_h + \epsilon_{t,h}$$







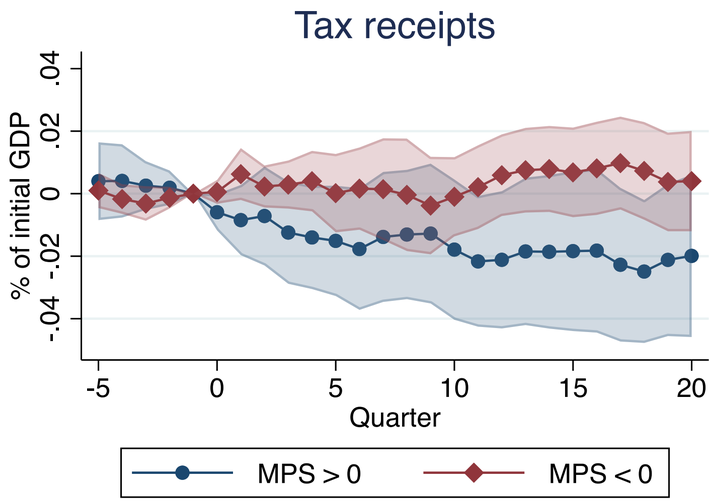


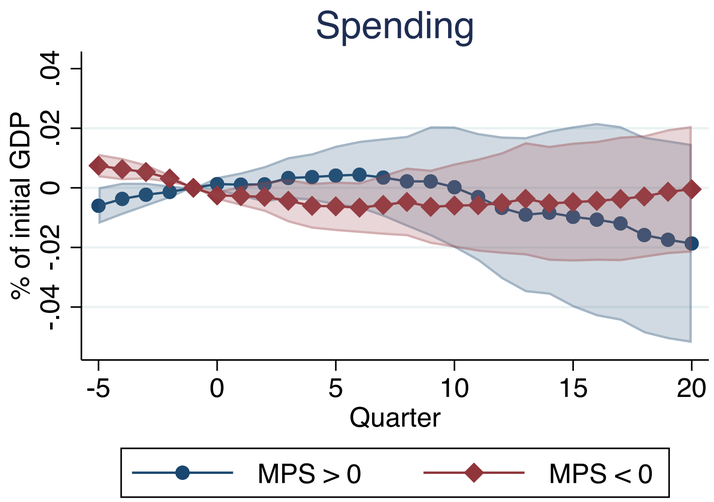


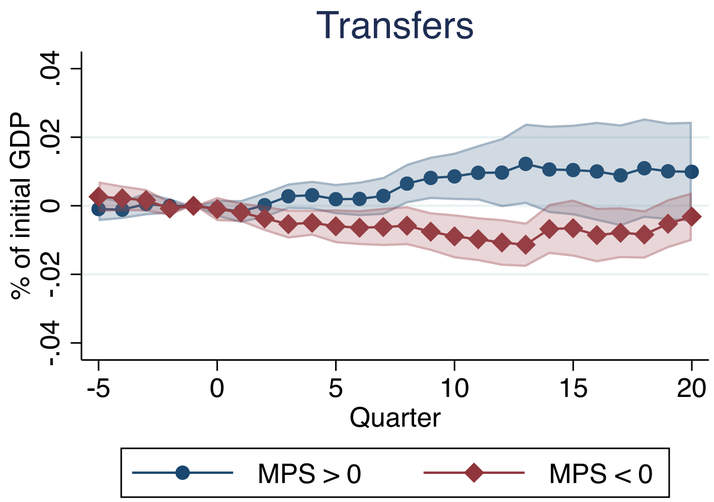
Data: NIPA Table 3.3.
State and Local Government
Current Receipts and Expenditures

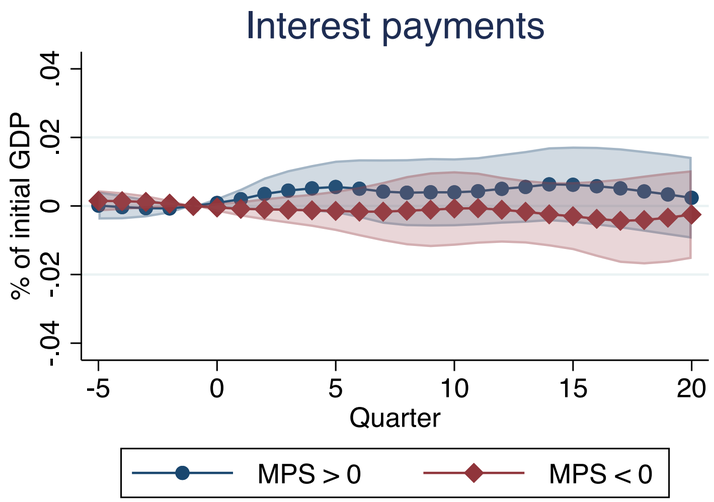
MPS: Bauer-Swansson MP shock
(orthogonalized)

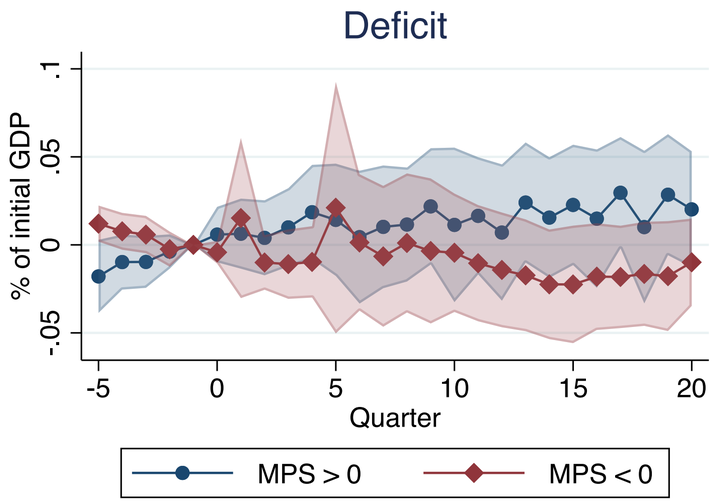
Asymmetric Effect?











Data: NIPA Table 3.3.
State and Local Government
Current Receipts and Expenditures

MPS: Bauer-Swansson MP shock
(orthogonalized)

Why Delayed?

- Why is the fiscal response delayed? Siani-Zhang runs:

$$\Delta Y_{s,t} = \sum_{k \in \{6M, Rev, FY\}} \beta_k \, MPS^k_{s,t} + \alpha_s + \gamma X_{s,t-1} + \epsilon_{s,t}$$

- Not very clear what the comparisons are. It mixes up…

1. Time-series comparison:
   - California FY2019 with $MPS^{6M} > 0$ in Jul-Dec 2018
   - California FY2018 with $MPS^{6M} = 0$ in Jul-Dec 2017
2. Cross-sectional comparison:
   - California FY2019 with $MPS^{6M} > 0$ in Jul-Dec 2018
   - North Carolina FY2019 with $MPS^{6M} = 0$ in Sep 2018-Feb 2019

- I would also not put controls $X_{s,t-1}$ (why do we need to control for anything?)

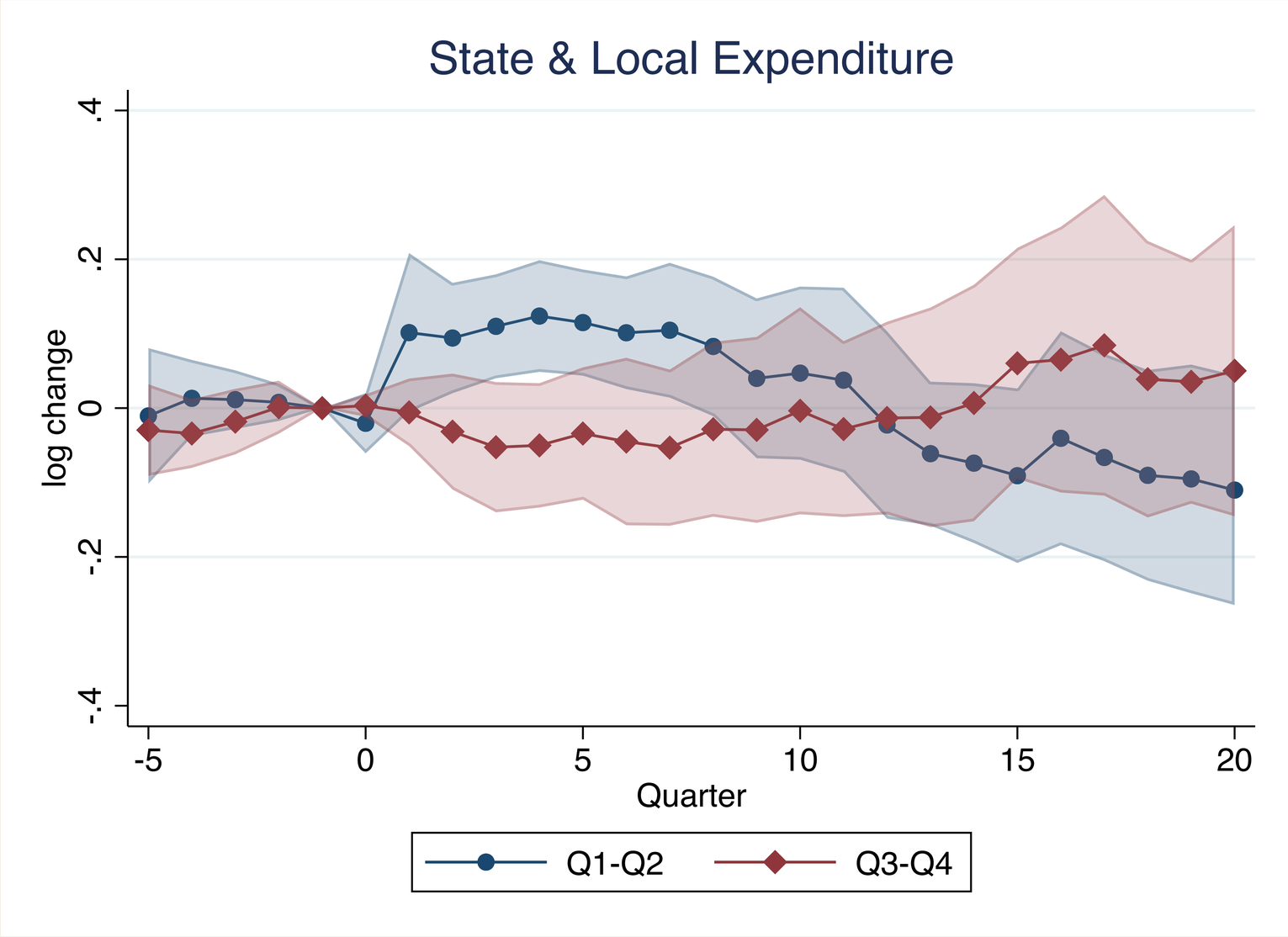
Isolating Time-Series Variation

- Use BEA 2005-2023 Regional Economic Accounts data
- Focus on 21 states with
  - Initial proposal: January
  - Fiscal year start: Jul 1
- Run

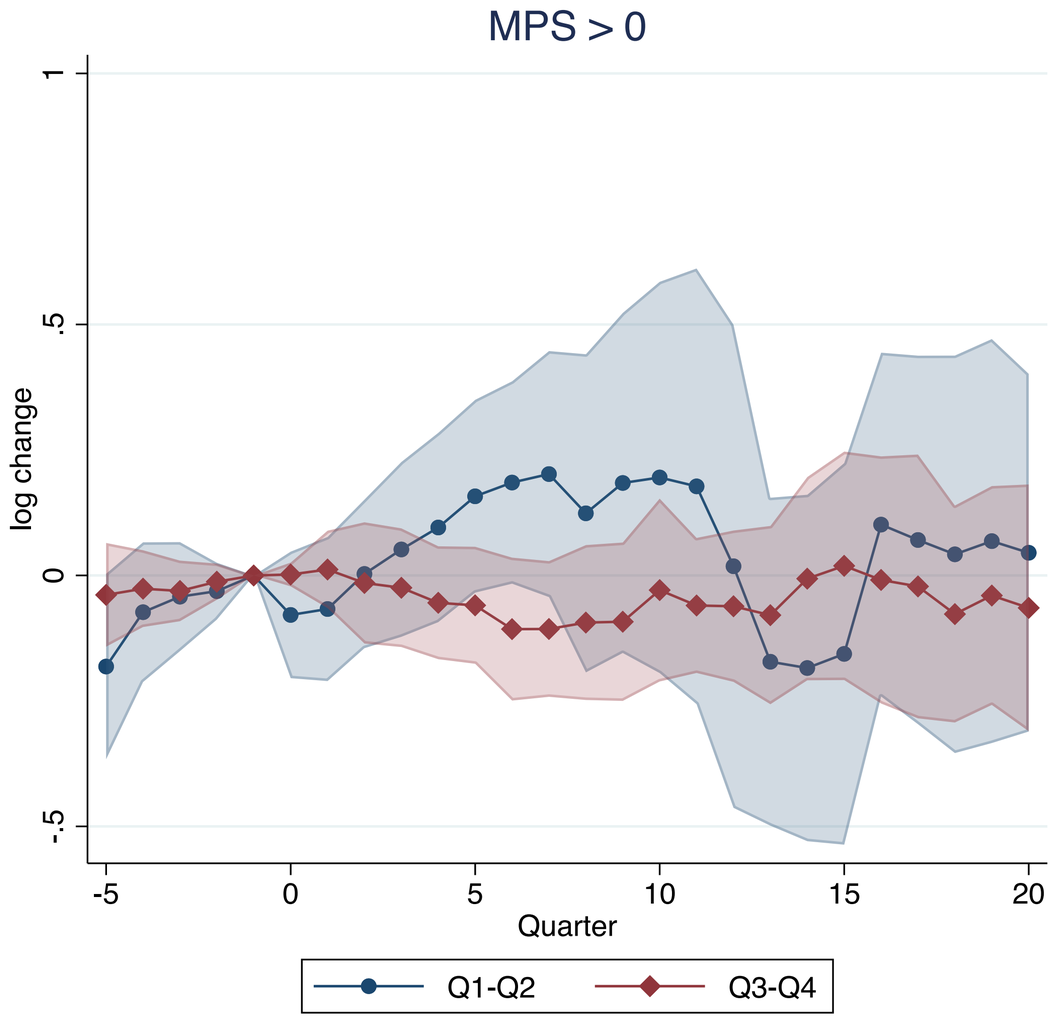
$$y_{s,t+h} - y_{s,t-1} = \beta_{Q34,h} MPS_t \mathbb{I}[Q(t) \in \{3,4\}] + \beta_{Q12,h} MPS_t \mathbb{I}[Q(t) \in \{1,2\}] + \alpha_s + \epsilon_{s,t,h}$$

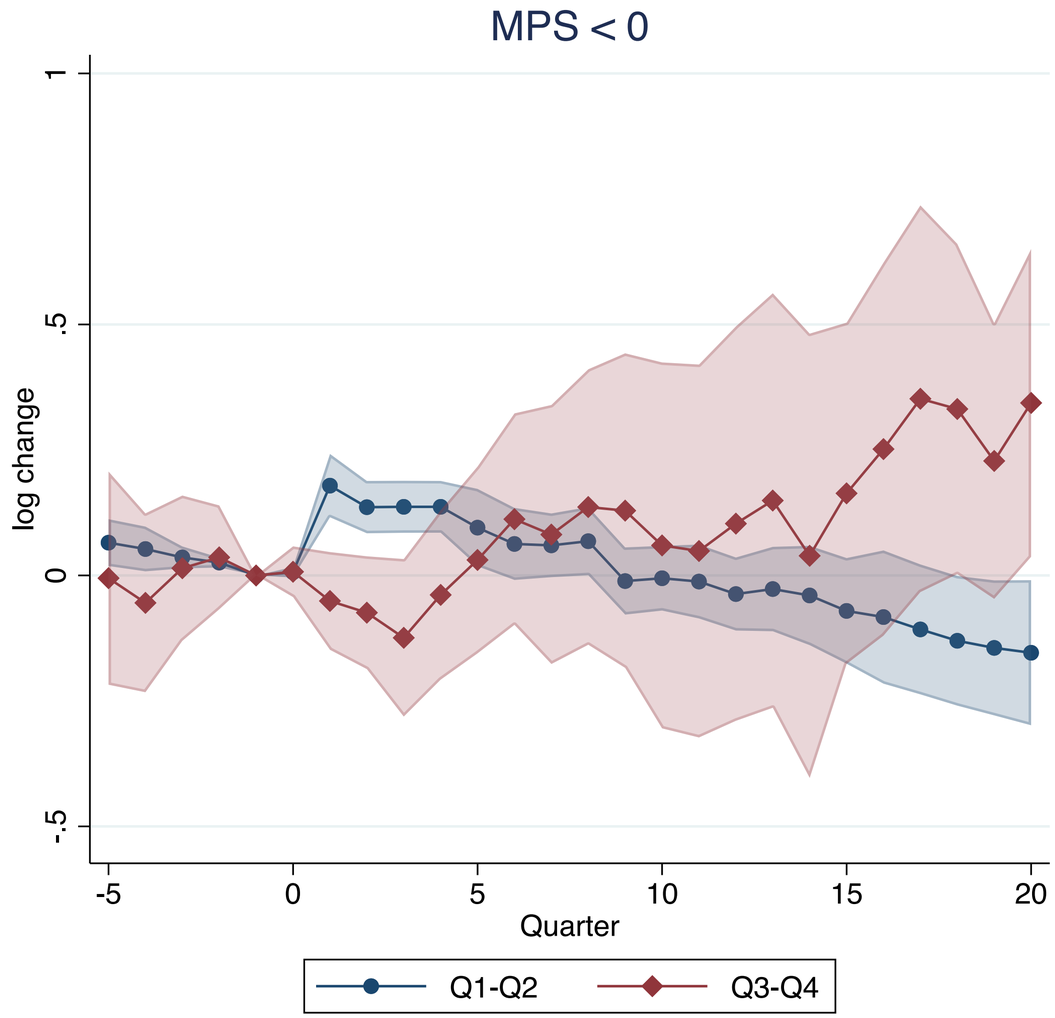
  - $y_{s,t}$: real state & local expenditure in state s at time t
  - $Q(t)$: quarter of time t
- **Hypothesis**: MPS during quarters 3&4 have more immediate impact

State & Local Expenditure Response



Asymmetric Effect?





Summary

- Extremely thought-provoking paper. I couldn't stop thinking about it!
  - Exactly hit the important missing hole in the literature!
  - Impressive data collection efforts
  - Very creative to look at planned vs. actual response
- Suggestions:
  1. Can be better framed by making precise connections with macro models
  2. The low-hanging fruit is to document the unconditional actual impulse response
     - before getting into delay, asymmetry, planning, and heterogeneity stuff
  3. Clarify the source of variations in the planning regression
     - Time-series? Cross-section? Role of controls?