Report on **Bachelor Thesis**

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	**Lukáš Janásek**
Advisor:	**doc. PhDr. Martin Gregor, Ph.D.**
Title of the thesis:	**Numerical fiscal rules and fiscal institutions in an economy with a dynamic common pool problem**

OVERALL ASSESSMENT *(provided in English, Czech, or Slovak):*

Contribution

This thesis is an ambitious attempt to look into the existing models of dynamic tax and spending choices of multiple policy-makers who share a pool of tax revenues, i.e., on models of a dynamic fiscal common pool problem. The author essentially generalizes the seminal two-period model by Persson and Tabellini (2000) into which he adds productive public investments in the spirit of Krogstrup and Wyplosz (2010).

The author manages to isolate three types of fiscal distortions associated with decentralized fiscal choices and also explains how alternative modes of fiscal centralization/governance influence each of these distortions. This is potentially a very rich analysis since the set of centralized regimes is basically a set of non-empty subsets of all fiscal decisions.

The analysis is conducted in a fully symmetric setting which allows the author to focus fully on distortions associated with fragmentation and take aside distributional distortions of centralization (where distortions are measured relative to the socially-optimal fiscal policy set by an utilitarian social planner).

One particularly interesting result is that even imperfect modes of fiscal governance manage can correct for all distortions as long as the setting is symmetric. Even more, the author manages to describe *all* regimes with imperfect fiscal centralization that can address all decentralization distortions if the groups are symmetry.

Given symmetry, it must be said that the analysis is thus not particularly suitable to the understanding of policy tradeoffs between fiscal centralization and decentralization and thus the thesis should not be misread as a comprehensive analysis of the effects of fiscal institutions on the spending incentives, but rather as a pure analysis of the effect of fiscal centralization on fragmentation (common pool) distortions.

Methods

The author basically follows a standard backward-induction modelling approach as in Persson and Tabellini (2001). Yet, since this approach cannot directly clarify the source of distortions, he alternatively proposes to identify the distortions through distortions in the optimization problems of the agents. In a word, the author compares how the fiscal agents' problems differ from a hypothetical optimization problem of the social planner. This involves distortions on the benefit side (e.g., given than fiscal agents don't internalize externalities) and distortions on the cost side.

This approach is illuminating and helpful especially in this two-period setting.

Literature

The literature on fiscal policy is a bit selective but in my view sufficient if I take into account that the main aim of the thesis has been to properly revisit the modelling toolkit used in Persson and Tabellini (2000).

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Manuscript form

The topic is not easy to analyze and deliver. At some points, we had to discuss at length how to organize and fine tune the material to make it accessible to the reader.

I have to witness that the thesis eventually went through multiple revisions and all these revisions have greatly increased clarity of the analysis. In particular, adding Tables 4.1 and 4.2 and Sect. 5 helped a lot. I think the final version is now very clean and straightforward given the breath of the material.

I just found typos on pages 11 and 15 (a wrong use of \hbox command). I would also perhaps reconsider labeling of the regimes as the acronyms are not always self-explanatory.

Summary

Overall, I consider the Bachelor thesis an excellent micro-founded work on fiscal institutions that can serve as a take-off for an even more general analysis of fiscal governance.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY		POINTS
Contribution	*(max. 30 points)*	29
Methods	*(max. 30 points)*	30
Literature	*(max. 20 points)*	18
Manuscript Form	*(max. 20 points)*	19
TOTAL POINTS	*(max. 100 points)*	**96**
GRADE		**A**

NAME OF THE REFEREE: **Martin Gregor**

DATE OF EVALUATION: **May 20, 2019**

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Referee Signature