

A General Equilibrium Evaluation of Fiscal Policy Responses to Shocks in Spain

Topic: CGE and econometric input-output modelling 2

Author: Maria Teresa Alvarez-Martinez

Co-Authors: Clemente Andrés Polo

The main goal of the paper is to assess the effects of several permanent tax rate hikes implemented by the Spanish Government in 2009 and 2010 to counteract the rapid increase of the public deficit and debt registered in 2009 and 2010. It uses a numerical general equilibrium model calibrated to a social accounting matrix elaborated by the authors for the year 2000. The effects of increases in excise, value added and personal income taxes are simulated separately and jointly. The results indicate that the extra revenues obtained from each tax figure are lower than ex-ante calculations estimated by the Government. Moreover, the reductions in the public deficit accomplished are considerably smaller due to general equilibrium effects generally ignored, such as the fall in production levels, increased unemployment, higher prices of public consumption and investment and larger Government transfers. The joint results also indicate that additional measures should be implemented to continue closing the deficit gap in the next future.