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WIRTSCHAFTSTHEORETISCHES FORSCHUNGSSEMINAR

RESEARCH SEMINAR IN ECONOMIC THEORY

March 5, 2009

University of Vienna
1010 Wien, Dr. Karl Lueger-Ring 1
“Elise Richter-Saal”
(from the main entrance go left and then straight all the staircases up)

4:00pm

Ken KLETZER,
University of California, Santa Cruz:

***“Economic Growth with Constraints on Tax Revenues and Public Debt:
Implications for Fiscal Policy and Cross-Country Differences”***

Abstract printed on the next page

5:30pm

Gino GANCIA,
CREI and Universitat Pompeu Fabra:

“Technological Change and the Wealth of Nations”

Abstract printed on the next page

./2

DOWNLOAD SITE FOR PAPERS (IF AVAILABLE) AND SEMINAR SCHEDULE

<http://www.univie.ac.at/vwl/EconomicTheory.html>

NOTE: Participation of advanced students in this seminar is highly recommended.



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Ken KLETZER,
University of California, Santa Cruz:

“Economic Growth with Constraints on Tax Revenues and Public Debt: Implications for Fiscal Policy and Cross-Country Differences”

This paper evaluates optimal public investment and fiscal policy for countries characterized by limited tax and debt capacities. We study a non stochastic CRS endogenous growth model where public expenditure is an input in the production process, in countries where distortions and limited enforceability result in limited fiscal capacities, as captured by a maximal effective tax rate. We show how persistent differences in growth rates across countries could stem from differential public finance constraints, and differentiate between the case where the public expenditure finances the flow of recurring spending (such as law enforcement), versus the stock of tangible public infrastructure. Although the flow of public expenditure raises productivity, the government should not borrow to finance it as the resulting increase in public debt would lower welfare and the growth rate. With outstanding public debt, the optimal fiscal policy should keep the debt-to-GDP ratio constant in the economy with or without a binding constraint on tax revenues as a share of GDP – current non-durable public goods should be financed only from current revenue. With investment in the stock of public infrastructure, public sector borrowing to finance the accumulation of public capital goods may allow the economy to reach a long-run optimal growth path faster. With a binding tax capacity constraint, if the ratio of the initial public/private sector stock of capital is smaller than the sustainable balanced growth ratio, the optimal policy for the government is to purchase public capital, financed by debt, to immediately attain the sustainable ratio of public capital to private capital. The sustainable steady-state ratio is endogenous to the initial public-to-private capital ratio, the tax capacity and any exogenous debt limit (say, due to sovereign risk). With capital stock adjustment costs, these statements apply to a transition of finite duration rather than an instantaneous stock jump. With either a binding exogenous debt limit or solvency constrained borrowing, a more patient country will have a higher steady-state growth rate but a lower steady-state public-to-private capital ratio.

with Joshua Aizenman (University of California, Santa Cruz) & Brian Pinto (The World Bank, Washington).

Gino GANCIA,
CREI and Universitat Pompeu Fabra:

“Technological Change and the Wealth of Nations”

We discuss a united theory of directed technological change and technology adoption that can shed light on the causes of persistent productivity differences across countries. In our model, new technologies are designed in advanced countries and diffuse endogenously to less developed countries. Our framework is rich enough to highlight three broad reasons for productivity differences: inappropriate technologies, policy-induced barriers to technology adoption, and within-country misallocations across sectors due to policy distortions. We also discuss the effects of two aspects of globalization, trade in goods and migration, on the wealth of nations through their impact on the direction of technical progress. By doing so, we illustrate some of the equalizing and unequalizing forces of globalization.

with Fabrizio Zilibotti (IEW - Zurich University).

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