

BRIEFING: Summarising and signposting essential reading we've seen elsewhere...

FISCAL CONSOLIDATION STRATEGY

In this paper, John F. Cogan, John B. Taylor, Volker Wieland and Maik H. Wolters examine the effects of reducing government borrowing in the US by cutting government spending. Specifically, they look at the case of reducing government spending to pre-crisis levels as a proportion of national income. The spending reductions allow cuts in the trajectory of both taxes and borrowing. The authors use new-Keynesian models for their analysis. The results suggest that a significant reduction in government spending would lead to higher national income both in the short and long term. These positive results arise firstly because lower government spending and lower taxes in the long run encourage more private spending immediately; secondly lower taxes remove distortions and stimulate employment; thirdly, lower borrowing reduces the exchange rate. It is worth noting this last point as the UK is a small open economy with a floating exchange rate and thus we can expect this to be an important channel in our case. This is another contribution to the growing body of research that suggests that fiscal consolidations should proceed through government spending reductions.

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**JOHN F. COGAN, JOHN B. TAYLOR,
VOLKER WIELAND AND MAIK H. WOLTERS**

www.sciencedirect.com/science/article/pii/S0165188912002023

THE FED: Success or Failure?

The period since the establishment of the Federal Reserve in 1914 has not been better than the period before its establishment as measured by macro-economic stability. Indeed, before World War II, the Fed presided over a severe bout of inflation and then deflation. Since World War II, the Fed's policy record has been better than its pre-war record but there has been a bias towards consistent but low inflation. However, new research suggests that even the Federal Reserve's post-war record on macro-economic stability is not a clear improvement on the pre-Fed record except in very recent years. That recent good performance record of the Fed, in the 1990s and early 2000s, proved temporary, however. Given this poor record, it is important that alternative monetary arrangements are explored.

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GEORGE SELGIN, WILLIAM D. LASTRAPES, LAWRENCE H. WHITE
www.sciencedirect.com/science/journal/01640704/34/3

INDEPENDENT SCHOOLS AND LONG-RUN EDUCATIONAL OUTCOMES

– evidence from
Sweden's large
scale voucher
reform

There is vigorous debate about the success of the Swedish education voucher system. The left tend to grasp any piece of evidence that suggests that competition has not improved performance despite the many studies that demonstrate that it has done so. This paper adds to the evidence pile in favour of school choice. The authors show that those areas of Sweden where there is the greatest penetration from non-state schools have seen significant relative improvements in performance. The results are very robust when controlled for a large number of variables. The results also show that competition from non-state schools leads to higher standards in state schools – in other words that there are spillover effects. Improved performance is achieved without additional expenditure implying an increase in efficiency in the use of resources spent on education.

*Working paper 2012:19.
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[www.ifau.se/en/Research/
Publications/Working-papers/2012/
Independent-schools-and-long-run-
educational-outcomes-
evidence-from-Swedens-large-scale-
voucher-reform-/](http://www.ifau.se/en/Research/Publications/Working-papers/2012/Independent-schools-and-long-run-educational-outcomes-evidence-from-Swedens-large-scale-voucher-reform/)