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Karel Mertens, Morten O. Ravn



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PII: S0304-3932(13)00053-6  
DOI: <http://dx.doi.org/10.1016/j.jmoneco.2013.04.004>  
Reference: MONEC2602

To appear in: *Journal of Monetary Economics*

Received date: 1 May 2012  
Revised date: 22 March 2013  
Accepted date: 10 April 2013

Cite this article as: Karel Mertens, Morten O. Ravn, A reconciliation of SVAR and narrative estimates of tax multipliers, *Journal of Monetary Economics*, <http://dx.doi.org/10.1016/j.jmoneco.2013.04.004>

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# A Reconciliation of SVAR and Narrative Estimates of Tax Multipliers<sup>☆</sup>

Karel Mertens<sup>a,c,\*</sup>, Morten O. Ravn<sup>b,c</sup>

<sup>a</sup>*Cornell University*

<sup>b</sup>*University College London*

<sup>c</sup>*CEPR*

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## Abstract

Existing empirical estimates of US nationwide tax multipliers vary from close to zero to very large. Using narrative measures as proxies for structural shocks to total tax revenues in an SVAR, we estimate tax multipliers at the higher end of the range: around two on impact and up to three after 6 quarters. We show that earlier findings of lower multipliers can be explained by an output elasticity of tax revenues assumption that is contradicted by empirical evidence or by failure to account for measurement error in narrative series of tax shocks.

*Keywords:* Fiscal policy, tax changes, vector autoregressions, narrative identification, measurement error

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## 1. Introduction

The empirical literature on the dynamic output effects of unanticipated changes in tax policy does not speak with one voice. Although most studies agree that tax increases are contractionary, there is considerable disagreement regarding the *size* of the effect on economic activity. Estimates of tax multipliers for the United States vary from close to zero to almost four, a range that is sufficiently wide that the literature provides only limited guidance for theory and economic policy. The broad range of estimates reflects numerous differences in methodology, including identification assumptions, model specifications, as well as sample coverage. In this paper, we use a new approach to estimate tax multipliers associated with shocks to total federal tax revenues. Our estimates imply tax multipliers of around two on impact and up to three after one-and-a-half

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<sup>☆</sup>We thank our discussants Matthew Shapiro and Elmar Mertens, as well as Matthieu Bussiere, Joris De Wind, Martin Eichenbaum, James Stock, Roberto Perotti and participants at numerous seminars and conferences for useful comments. We also thank Jonas Fisher and Todd Walker for providing data.

\*Corresponding author

*Email addresses:* km426@cornell.edu (Karel Mertens), m.ravn@ucl.ac.uk (Morten O. Ravn)

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