Table 6

Omitted Variables Explain Output Fluctuations

Model	OLS	IV (binary)	IV (continuous)
Real GDP growth	0.00	0.00	0.00
Real private loan growth	0.24	0.56	0.54
CPI Inflation	0.00	0.00	0.00
Change in investment to GDP ratio	0.01	0.00	0.00
Short-term interest rate	0.00	0.00	0.00
Long-term interest rate	0.00	0.01	0.02
Current account to GDP ratio	0.00	0.00	0.00

Notes. See text. Entries are the p-value of a test of the null hypothesis that the given variable and its lag are irrelevant in determining output given the fiscal treatment. The test is applied to three models. 'OLS' refers to the LP responses calculated in Table 2; 'IV' refers to the LP responses calculated using the binary instrument in Table 4; and 'IV-Total' refers to the LP responses calculated using the continuous instrument.

Real GDP growth

```
                         Instrumented:          fAA      Instrumented:          fAA
                         Included instruments: hply dly ldly Included instruments: hply dly ldly
                         Excluded instruments: F.treatment   Excluded instruments: F.total
                         -------------------------------------------------------------------

( 1)  dly = 0            ( 1)  dly = 0                        ( 1)  dly = 0
( 2)  ldly = 0           ( 2)  ldly = 0                       ( 2)  ldly = 0

    F( 2,   16) = 277.26        chi2( 2) =  491.43                chi2( 2) =  324.38
        Prob > F =  0.0000      Prob > chi2 =   0.0000           Prob > chi2 =    0.0000
```

Real private loan growth

```
                         Instrumented:          fAA      Instrumented:          fAA
                         Included instruments: hply drprv ldrprv Included instruments: hply drprv ldrprv
                         Excluded instruments: F.treatment   Excluded instruments: F.total
                         -------------------------------------------------------------------

( 1)  drprv = 0          ( 1)  drprv = 0                      ( 1)  drprv = 0
( 2)  ldrprv = 0         ( 2)  ldrprv = 0                     ( 2)  ldrprv = 0

    F( 2,   16) =   1.54        chi2( 2) =    1.16                chi2( 2) =    1.22
        Prob > F =  0.2436      Prob > chi2 =   0.5590           Prob > chi2 =    0.5428
```

CPI Inflation

```
                         Instrumented:          fAA      Instrumented:          fAA
                         Included instruments: hply dlcpi ldlcpi Included instruments: hply dlcpi ldlcpi
                         Excluded instruments: F.treatment   Excluded instruments: F.total
                         -------------------------------------------------------------------

( 1)  dlcpi = 0          ( 1)  dlcpi = 0                      ( 1)  dlcpi = 0
( 2)  ldlcpi = 0         ( 2)  ldlcpi = 0                     ( 2)  ldlcpi = 0

    F( 2,   16) =  10.65        chi2( 2) =   28.70                chi2( 2) =   24.52
        Prob > F =  0.0011      Prob > chi2 =   0.0000           Prob > chi2 =    0.0000
```

Change in investment to GDP ratio

```
                         Instrumented:          fAA      Instrumented:          fAA
                         Included instruments: hply dlriy ldlriy Included instruments: hply dlriy ldlriy
                         Excluded instruments: F.treatment   Excluded instruments: F.total
                         -------------------------------------------------------------------

( 1)  dlriy = 0          ( 1)  dlriy = 0                      ( 1)  dlriy = 0
( 2)  ldlriy = 0         ( 2)  ldlriy = 0                     ( 2)  ldlriy = 0

    F( 2,   16) =   5.62        chi2( 2) =  226.90                chi2( 2) =  267.67
        Prob > F =  0.0142      Prob > chi2 =   0.0000           Prob > chi2 =    0.0000
```

Short-term interest rate

```
                        Instrumented:            fAA       Instrumented:            fAA
                        Included instruments: hply stir lstir  Included instruments: hply stir lstir
                        Excluded instruments: F.treatment      Excluded instruments: F.total
                        ------------------------------------  ------------------------------------
 ( 1)  stir = 0         ( 1)  stir = 0                        ( 1)  stir = 0
 ( 2)  lstir = 0        ( 2)  lstir = 0                       ( 2)  lstir = 0

   F( 2,    16) =  17.55        chi2( 2) =    25.22             chi2( 2) =    23.85
        Prob > F =   0.0001        Prob > chi2 =    0.0000        Prob > chi2 =    0.0000
```

Long-term interest rate

```
                        Instrumented:            fAA       Instrumented:            fAA
                        Included instruments: hply ltrate lltrate  Included instruments: hply ltrate lltrate
                        Excluded instruments: F.treatment      Excluded instruments: F.total
                        ------------------------------------  ------------------------------------
 ( 1)  ltrate = 0       ( 1)  ltrate = 0                      ( 1)  ltrate = 0
 ( 2)  lltrate = 0      ( 2)  lltrate = 0                     ( 2)  lltrate = 0

   F( 2,    16) =   8.14        chi2( 2) =     8.90             chi2( 2) =     8.03
        Prob > F =  0.0036        Prob > chi2 =    0.0117        Prob > chi2 =    0.0181
```

Current account to GDP ratio

```
                        Instrumented:            fAA       Instrumented:            fAA
                        Included instruments: hply cay lcay    Included instruments: hply cay lcay
                        Excluded instruments: F.treatment      Excluded instruments: F.total
                        ------------------------------------  ------------------------------------
 ( 1)  cay = 0          ( 1)  cay = 0                         ( 1)  cay = 0
 ( 2)  lcay = 0         ( 2)  lcay = 0                        ( 2)  lcay = 0

   F( 2,    16) =  12.60        chi2( 2) =    61.31             chi2( 2) =    54.50
        Prob > F =  0.0005        Prob > chi2 =    0.0000        Prob > chi2 =    0.0000
```

var	ols	iv_tre~t	iv_total
dly	0	0	0
drprv	.24	.56	.54
dlcpi	0	0	0
dlriy	.01	0	0
stir	0	0	0
ltrate	0	.01	.02
cay	0	0	0