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VITA

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Studies: "Laurea" Degree from the University of Rome, 1970 (Philosophy, Summa cum Laude), Post-Graduate Studies in Economics (Cambridge University, 1973-4; University of Wisconsin-Madison, 1981-2).

Foreign Languages: English, French.

Current Position:

- Professor of Economics, Faculty of Economics, University of Siena
- Member of the Policy and Economics Council, *Gerson & Lehrman Group*, New York, 2006-
- Fellow of the *Euro Area Business Cycle Network* (EABCN, Bruxelles), 2006-

Academic Experiences:

- Professor of Economics (Macroeconomics, Applied Econometrics), Faculty of Economics, University of Siena, 2000-
- Visiting Professor at the University of Paris12, France (Winter, 2006): Business Cycle Analysis.
- Visiting Professor at the University of Rome-Tor Vergata (1998): Macroeconomics.
- Visiting Associate Professor at the University of Wisconsin-Madison (1990): Macroeconomics.
- Visiting Associate Professor at Wesleyan University (1989): Econometrics, European Economy.
- Associate Professor of Economics, Faculty of Economics, Siena (1988-99): Applied Econometrics.
- Assistant (1976-82) and Associate Professor of Economics (1983-7) at the University of Teramo, Italy: Macroeconomics and Econometrics.

Professional Experiences:

- Advisor to the **Italian Treasury** (1995-2001) and **Scientific Coordinator** of the first Treasury Econometric Model (ITEM).
- Member of the Executive Committee of the **International Society for Inventory Research** (ISIR, Budapest, 1982-88 and 2004-5).
- Visiting Fellow (2000) at **IMOP** (Lab of Economic Policy Studies), Athens, Greece.
- Visiting Scholar at the **IMF Research Department** (1996).
- Visiting Scholar at the **NBER**, Cambridge Mass. (1988).
- Head of the Economist A4 Unit in the **National Research Board (CNR)** project on the "Structure of the Italian Economy" (CNR, Rome, 1985-6).
- Senior Economist at the **ISEL** (1979-85), the *Institute for Labor Market Studies* chaired by Ezio Tarantelli. Author of the institute econometric model (MOMEL).

Editorial Activities

- Associate Editor, "Journal of Economic Asymmetries" European edition, 2008-
- Member of the Scientific Committee, "Rivista di Politica Economica", 2003-
- Referee for: "American Economic Review", "Economic Enquiry", "Economica", "Economic Notes", "European Economic Review", "Giornale degli Economisti", "Journal of the European Economic Association", "Journal of Money, Credit and Banking", "Journal of Macroeconomics", "International Economics and Economic Policy", "Oxford Economic Papers", "Review of Income and Wealth", "Ricerche Economiche" etc.

Selected Conferences

Speaker at the *American Economic Association* and at the *Econometric Society* (San Francisco, 1984); *International Society for Inventory Research* (ISIR, Budapest, 1980, 1982, 2000); *International Economic Association* (Moscow, 1992); *CIRET-IFO Group* (Singapore, 1995); *Society for Economic Dynamics* (Oxford, 1997); *IMOP* (Hydra, Greece, 2002), *CEPR* (University of Bonn, 2003); *ASSET* (Crete, 2005); *Department of the Treasury* (Rome, 2008); *CASE Conference*, Warsaw, 2009 etc.

A. Selected Publications

Books:

- [1] *Inventory, Business Cycles and Monetary Transmission* [1994] (Ed.), Springer, New York.
- [2] *Mercato del Lavoro e Politica Economica* [1984] [in Italian: Labor Market and Macroeconomic Policy. The ISEL Institute Econometric Model of the Italian Economy, Venezia, Marsilio].
- [3] *Il Disagio degli Economisti* [1976] (Ed.) [in Italian: Essays in Economics Methodology), Firenze, La Nuova Italia.

Articles and chapters of books:

- [4] *The Anatomy of the Labor Supply Elasticity* (with G. Zanella) [2012] in "Review of Economic Dynamics", 15, 2, 171-87.
- [5] *Labor Supply Elasticities: Can Micro Be Misleading for Macro?* (with G. Zanella) [2009], University of Siena, [also: http://works.bepress.com/riccardo_fiorito/].
- [6] *Public Goods, Merit Goods, and the Relation Between Private and Government Consumption* (with T. Kollintzas), [2004], "European Economic Review", December, 1367-98.
- [7] *Inventory Changes and the Closing of Econometric Models* [2003], "International Journal of Production Economics", 81-82:75-84.
- [8] *The Paradox of Corporatism* [2003] in: M. Baldassarri - B. Chiarini (eds.), *Studies in Labour Markets and Industrial Relations*, Palgrave/Macmillan, 277-97.
- [9] *The Market Value of Italian Government Debt, 1970-1996* [2002] (with L. Pecchi and G. Valente), "Giornale degli Economisti e Annali di Economia", 1, 1-28.
- [10] *Distortionary Taxation and Labour Market Performance* [2001] (with F. Padrini), "Oxford Bulletin of Economics and Statistics", 2, 173-96.
- [11] *Government Debt, Taxes and Growth* [2000], "Journal of Public Finance and Public Choice", 2, 119-30.
- [12] *Labor Market and Cyclical Fluctuations* [1997] in: M. Aoki-A.M. Havenner (eds.), *Applications of Computer Aided Time Series Modeling*, Springer-Verlag, New York, 121-40.

- [13] *Stylized Facts of Government Finance in the G7* [1997], IMF Research Dept, WP # 97/142.
- [14] *Stylized Facts of Business Cycles in the G7 from a Real Business Cycles Perspective* [1994] (with T. Kollintzas), "European Economic Review", 235-69.
- [15] *Regional Unemployment in Italy: Sources and Cures* [1994] (with M. Baussola), "Journal of Policy Modeling", 497-527.
- [16] *Analysis of US Real GNP and Unemployment Interactions: State Space Approach* [1993] (with M. Aoki), "Journal of Economic Dynamics and Control", 17, 385-99.
- [17] *Unemployment Components in the G7 Countries* [1993] (with F. Padriani), "Labour", 2, 129-41.
- [18] *Inventory Accounting and Profit Evaluation* [1991], "Review of Income and Wealth", 433-45.
- [19] *Prices, Output and Inventories over the Business Cycle* [1988], in: A.Chikán (ed.), *Economics and Management of Inventories*, Amsterdam: Elsevier Science, 95-125.
- [20] *Multisectoral Inventory Cycles under Different Expectations and Technologies* [1984], "Economic Notes", 1, 109-19.
- [21] *Demand for Labor and Finished Goods Inventories* [1983], in: A. Chikán (ed.), *New Results in Inventory Research*, Amsterdam: Elsevier Science, 121-44.
- [22] *Inventory Investment and Demand for Factors in Disequilibrium* [1981], in: A. Chikán (ed.), *Inventories in the National Economy*, Elsevier Science and Akademiai Kiado, Amsterdam.

Selected articles in Italian:

- [23] *Recessioni, cicli e politica fiscale* (Recessions, Business Cycles and Fiscal Policy), "Rivista di Politica Economica", 2012, 1-3, 141-64.
- [24] *Disoccupazione in Europa: Fatti e Proposte* [1998] (Unemployment in Europe: Facts and Proposals), "Moneta e Credito", Marzo, 25-51.
- [25] *Tendenze del Mercato del Lavoro nel Nord, Centro e Mezzogiorno* [1990] (Modeling North, Center and Southern Labor Markets in Italy) in: M. Cimoli- I. Musu (eds.), *Cambiamento Strutturale ed Asimmetria nell'Economia Italiana*, F. Angeli, 235-70.
- [26] *Causalità, Esogeneità e Ciclo Economico* (1988), "Quaderni di Storia dell'Economia Politica", V-VI, 231-52.
- [27] *Il Contributo di Ezio Tarantelli agli Studi di Economia del Lavoro* [1985] (Ezio Tarantelli as Labor Economist), "Rivista Internazionale di Scienze Sociali", 3-4, 494-519.
- [28] *Caratteristiche, Utilizzo e Nuove Linee di Ricerca del Modello Econometrico dell'ISEL* (with E.Tarantelli), 1984 in: Bank of Italy, *Ricerche Quantitative per la Politica Economica*, Banca d'Italia, Roma, 1984, vol .1 409-18 [An outline of the ISEL model of the Italian economy].

Technical Reports:

- [29] *The Italian Treasury Econometric Model (ITEM): An Overview* [2000] (with C. Favero, F. Nucci, F. Padriani and O. Ricchi), Rome, Ministry of Treasury, March.

- **Presentations and Policy Notes** [downloadable from: www.econ-pol.unisi.it/fiorito/poldeb.htm]

- [30] *Last Recession and Past Recessions: Some Clues*, [Presentation at the "Financial Crises and Recessions" Meeting, Faculty of Economics, University of Siena, May 2010].

[31] *Output Gaps, Recessions and Fiscal Discretion* (with Fabrizio Coricelli) [Presentation at the *Case Conference: From Consensus to Crisis*, Warsaw, November 2009].

[32] *Why Macro Labor Supply Is More Elastic Than Micro: Theory and Policy Implications*, Brown Bag Lunch Meetings, Department of Treasury, Rome, April 2008.

[33] *Comments on the Oecd Survey of Italy* (2005) [Faculty of Economics of the University of Siena, June].

[34] *Fiscal Risk Indicators for the EMU Countries* (2005) [Meeting at the Faculty of Economics of the University of Siena, May].

[35] *Government Spending for Merit Goods: Macroeconomic Implications* (2005), ASSET Lecture, Crete.

[36] *I Parametri del Patto di Stabilità: Intoccabili, Cervellotici o Incompleti?* (September 2002) [in Italian: the first proposal of inserting the government debt-to-gdp ratio into the Stability and Growth Pact (also available in: www.lavoce.info, 09/17/02)].

[37] *Più Incompleto che Stupido: Osservazioni e Proposte sul Patto di Stabilità e Crescita* [2002] [in Italian: elaboration on the proposal [35] of inserting government debt into the SGP], Department of Economics, Working Paper # 371, University of Siena, December.

B. Research Achievements and Agenda¹

My research focusses on macroeconomic policy and theory. This orientation required a long-time acquaintance with applied dynamic macroeconomics and econometrics. Current research deals with:

- i) Introducing recessions in business cycle analysis
- ii) The impact of taxation on growth and labor supply in Europe
- iii) The size and the efficacy of fiscal discretion in the OECD countries.

Overall, my research achievements can be roughly divided into the following four issues:

- **Macroeconomic/Econometric Modeling**
- **Business Cycle**
- **Labor Market**
- **Fiscal Policy**

Most policy applications deal with Italy, the EU, the US and the G-7.

B1. Macroeconomic/Econometric Modeling:

I was involved in building a large annual econometric model of Italy [2] for the ISEL Institute in Rome, headed by Ezio Tarantelli [27], who was at that time my intellectual mentor.² By and large, the model was neo-Keynesian, though including some supply-side flavor that was instrumental in evaluating the role of wage predetermination and other policy issues. A simplified version of the aggregate model was also

¹ Boldface numbers in brackets refer to the publication list.

² Ezio was a former MIT pupil and then a colleague and coauthor of Franco Modigliani. In 1985, he was killed by the Red Brigades terrorists because of his proposal of involving Italian trade unions in an anti-inflationary policy.

estimated for Italy's three macroregions [15], showing that there is not only a historical North-South divide but also a distinctive Central area pattern (small firms, local labor markets etc.) [25].

Parallel developments in macroeconomics and econometric modeling, stimulated my interest in learning new development in multivariate time series [26] and applying new theories and tools, ranging from VAR [19] to state-space modeling: in this last case, an identification scheme was provided in my work with Masanao Aoki [16] for interpreting the response of the US economy to nominal shocks and to the labor and good market interaction in a dynamic optimization model [12].

My second structural model was the econometric model that I have coordinated with Carlo Favero (Bocconi University, Milan) for the Italian Treasury [29]. Our research group worked for about 5 years (1996-01) to produce a fully specified, quarterly model, of the Italian economy (ITEM). The model was successful in terms of forecasting ability and flexibility of policy applications and stimulated further applied work. Though retaining a detailed household and government spending side, the model was not longer a Keynesian, income determination, construct since the level of activity (value added) in each sector was based on supply side and TFP driving forces. Further, inventory adjustment was used as a buffer for matching aggregate imbalances and then interpreted as an observable *utilization* variable for both output and sales [7].

B2. Business Cycle

My work on business cycles was mainly stressing two issues. The first - also in a temporal sense - was the study of inventory investment as a possible source of aggregate fluctuations despite its small GDP share. The second issue was extending - also outside of the US - the *stylized facts* methodology³ to find how (and how deeply) major macroeconomic variables reflect (affect) real GDP cycles at different phases.

My current research focusses on inserting recessions into the stationary growth cycle methodology [23]-[31]. This is done for evaluating in a unified way the (few) post-war recessions in the Oecd area [30] and the much more frequent (50%!) negative cycles. The suggested methodology stresses the limits of using *output gaps* as a stabilization device to be replaced by a more complete indicator which includes also changes in the growth rate and its discrepancy from potential growth rate.

Inventory Cycles

I have studied several aspects of inventory investment, ranging from factor adjustment [19]-[21] to its relevance for business cycle theory [20] and evidence in a VAR framework [19]. Moreover, I have also analyzed measurement issues, linking business and NIPA definitions to evaluate the quality of macroeconomic inventory data [18].

³ F. Kydland and E.C. Prescott (1990), *Business Cycles: Real Facts and a Monetary Myth*, "Federal Reserve Bank of Minneapolis Quarterly Review", 14, 3-18.

The book I edited in 1994 [1] from a conference I organized two years before in Siena, includes contributions by leading specialists (e.g., Christiano, Hester, Laroque, Lovell, Maccini, West) in both inventory and business cycle research [11]. Most recently, however, I am inclined to see inventory changes more as a buffer between aggregate supply and demand than as a real instigator of the business cycle. This view is reflected in the ITEM Treasury model [29] and is fully developed in an article where the relevant inventory implications for macro modeling are presented [7].

Stylized Facts

My 1994 work with Kollintzas [14] extended the stylized facts methodology from the US to the G-7 and helped to establish that some major RBC results were not a US, postwar, pattern only. The same holds for other countries, confirming the importance of productivity and TFP shocks. Finally, our article received considerable attention (and quotations) by the specialized literature.

During my 1996 visit at the IMF, I provided the first, quarterly, stylized fact analysis of the government finance components in the G-7 [13]. In most cases, spending fails to lead the economy procyclically, it rather being a passive cyclical stabilizer or even a procyclical variable. This pattern – which does not apply, as commonly believed (e.g. Talvi-Vegh, 2005), to developing countries only – was also stimulating my future (current) research on the size and impact of fiscal discretion in the Oecd area [23]-[31].

Finally, I have also used the stylized facts methodology in another G-7 study [10] to evaluate how labor supply and labor demand respond to consumption, capital and labor tax rates. Namely, we constructed effective *quarterly tax rates*, refining a previous estimate from annual data⁴ and obtaining that factor taxes reduce output and labor decisions.

B3. Labor Market

The attention I paid to several labor market issues mostly reflects a macroeconomic perspective: i.e. an effort of linking labor market and macroeconomic performance in the light of external shocks and policy interventions. This appears in both my earlier [2]-[22]-[25] and more recent econometric work [29]. It also appears in other approaches, based on multivariate time-series modeling [12]-[16] and on comparative stylized facts methodology [14]-[10].

I was also studying the unemployment rate sources in Europe and in the US, finding - however - that unemployment data can be misleading as long as they mix labor supply and labor demand over the business cycle [16]-[17]-[24]. This is especially true when investigating the effects of distortionary taxation: those on

⁴ Mendoza, E.G. , Razin, A. and Tesar, L.L. (1994), *Effective Tax Rates in Macroeconomics: Cross Country Estimates of Tax rates on Factor Incomes and Consumption*, “Journal of Monetary Economics”, 34, 297-323.

unemployment can be small, simply because the increase in the labor force – which is especially relevant for women [4] - almost offsets employment increases [10].

Recently, I have estimated a standard (Macurdy) labor supply function from the PSID panel data for the US [4]-[5]. A major result is that the micro elasticity is significantly smaller than the macro, time series, elasticity, obtained from aggregating each year the *same* individuals in the PSID sample. This result is roughly consistent with the typical RBC/calibration conjecture that the macro elasticity is about one, despite that virtually all micro estimates report much smaller (0.1- 0.3) values.

We interpret this evidence - which is new in the aggregation methodology - as a confirmation of the fact that most changes in labor supply refer to the *extensive* rather than to the *intensive* margin: a fact that probably – though not exclusively - reflects the higher women participation response to the after-tax real wages [10], especially when home production is accounted for [5]-[32]. More generally, this implies that, calibrating DSGE models, macro parameters do not *always* need to coincide with those based on consensus micro-econometric estimates.

B4. Fiscal Policy

Studying government finance in the G-7 [13] helped me in understanding that stabilization policies have not been generally capable of *activating* the economy before shocks materialize. This weakness in fiscal policies mostly reflects two facts: the first is that government spending is too often passive *vis-a'-vis* business cycle fluctuations. Afterwards, this point led me to the view that discretionary spending should be confined to the *temporary* and *reversible* fraction of total government spending, i.e. to less than 1/3 of the relevant aggregate for most Oecd countries [31]-[23].

The second fact is that distortionary taxation impinges upon labor supply [10] and, eventually, on the growth potential. In a simulation study [11], I have shown that government financing via taxes reduces growth and, paradoxically, protracts the time needed to stabilize the debt-to-gdp ratio. Cutting government spending should be preferred for this reason too.

General government debt was important for my research agenda which was strongly stimulated by my work at Italy's Treasury [29] and at the IMF [13]. My personal research, however, developed in other two ways: the first was estimating, from the official par-value data, the market value of Italian government debt, i.e. of the debt notion which seems mostly relevant for analyzing private spending/saving decisions [9]. The second achievement was part of the discussion on the *Stability and Growth Pact* (SGP) that took place some years ago, before its recent revision.

My SGP proposal was the first suggesting a *variable* deficit threshold, inversely related to the government debt size in each country. Despite that this suggestion appeared on the web in Italian [36], it was recognized by field specialists (e.g. D. Gros) and official EU sources too⁵. Thus, in a related paper [37], I elaborated a bit more on the reasons why the SGP – rather than being *stupid* as it was sometimes defined – was instead *incomplete* because of the missing link between government deficit and debt. Basically, my debt suggestion aimed at providing a possible way of reconciling the SGP credibility with the widespread quest for flexibility since both targets are preserved when deficit thresholds are higher for low-debt countries and lower for the high-debt ones.

The government debt issue enters also my research agenda on constructing fiscal risk indicators for the EMU countries based on General Government Net Worth categories rather than on the government debt alone [34]. Finally, an important achievement of my research was analyzing government spending by *function* [6]. In this case, however, the functional classification was instrumental in splitting government consumption into a *public goods* and into a *merit goods* share to assess if the substitution between private and government consumption [Barro, 1981] still holds when these two components are considered.

This second paper with Kollintzas shows that substitution between private and government consumption holds for *public goods* only. Conversely, *merit goods* consumption is always *complementary* with private consumption as we obtain from robust GMM estimates of a dynamic panel including twelve European countries. Since public goods are in the sample about 1/3 of the overall government consumption, the complementarity of the larger merit goods share – which is mostly made of health and education spending - dominates the aggregate relation between private and government consumption [6]. This result has several implications for macroeconomic research and Welfare State policies [35], supporting the view that government spending effects differ by function and type and that more disaggregation is needed.

The need of evaluating government spending by component, is also a major motivation in my current work with Coricelli [31], where discretionary spending for the Oecd countries is measured on the basis of the time series properties of each spending category. Finally, ongoing research aims at showing that government spending effects widely differ over the business cycle, being generally stronger in recession times and when discretionary components prevail.

⁵ European Commission, “European Economy” (3, 2004), *Public Finances in EMU*.