Present-biased Government, Creative Accounting and a Pitfall in Balanced Budget Rules

Download Keep in mind
The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR De Castro-Valderrama, Marcela

The series Borradores de Economía (Working Papers on Economics) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc). The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Publication Date: Monday, 6 of December 2021 **Abstract**I propose a general equilibrium model with a quasi-hyperbolic discounting government that optimally decides upon using creative accounting in order to evaluate a balanced budget rule and a debt rule. In that context, I find that a binding balanced budget rule could fail to properly constrain public overindebtedness when government uses creative accounting while a debt rule is effective, since targets are set on total public liabilities. Results suggest that a balanced budget fiscal rule can also deteriorate welfare due to the higher interest rates derived from doing operations under the line, implying future expenditure cuts that are harmful for households, who value public goods and services. A debt rule is also preferred for its capacity to reverse some welfare losses generated by the present-biased government.

Fuente: https://www.banrep.gov.co/en/present-biased-government-creative-accounting-and-pitfall-balanced-budget-rules