

**The Impact of Monetary and Fiscal Policy on Poverty Incidence:
Using FCGEs: Case Evidence of Thailand**
by Nur Ain Shahrier and Chuah Lay Lian

Discussant comments by:

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This is an interesting paper which tackles an important issue seldom addressed in macropolicy assessment, namely the impact on poverty and income distribution. The impact on distribution is gauged by the ratio of income of the top to the bottom quintile. However I do have a few major issues with the paper.

First is the distribution and poverty impact assessment. The authors look at absolute income change of the bottom quintile, and the change in the poverty line; if the former declines and the latter is unchanged, then poverty is said to have dropped. However, one can imagine the mean income of the bottom quintile rising, with no change in the poverty line, but poverty may increase, simply due to a worsening of the distribution **within** the bottom quintile. Implicitly therefore the assumption seems to be, that any income changes within a quintile are distribution neutral. However, it is unclear whether there is good evidence to support this assumption.

Second is the interpretation of the key results, i.e. impacts of fiscal and monetary policies. Expansionary fiscal policy is said to have improved income distribution. But there is no explanation why bottom quintile gains more than the top quintile. Is it related to the composition of government spending? The differences in factor shares? The distributional changes are in effect a black box, diminishing the insight from the analysis. The finding on asymmetric effect of an increase vs decrease in government spending is therefore difficult to justify; hence the validity of the model finding is questionable.

Third is the model closure. Equation [33] is interpreted as "...total factor demand employed as the summation of the demand for each factor across the sectors." The variable on left hand side is FS_i ; in the list of variables, FS_{labor} is the total amount employed; however there is no explanation for $FS_{capital}$. If their interpretation is correct and Equation [33] is merely an aggregator, then there appears to be lack of closure rule for the factor market. For a standard Walrasian model, we must have FS to denote the factor supplies, then the closure is for supply to equal demand in the factor market; which determines equilibrium factor prices. Alternatively the prices may be fixed from the outset, and effective supply simply matches available demand as a quantity adjustment; available supply is higher, and therefore there is unemployment. However wages and rent do vary depending on macropolicy, hence exactly what determines factor prices remains a puzzle to me. Endogenous factor prices suggests that model closure is Walrasian; however the AS-AD interpretation of Figure 2.1. fails because the AS must be perfectly vertical, and AD changes will not alter real aggregate GDP.