

Abstract

In times of rapid macroeconomic change it would seem useful for both fiscal and monetary policy to be modified frequently. This is true for monetary policy with monthly meetings of the Open Market Committee. It is not true for fiscal policy which mostly varies with the annual Congressional budget cycle. This paper proposes a feedback framework for analyzing the question of whether or not movement from annual to quarterly fiscal policy changes would improve the performance of stabilization policy. More broadly the paper considers a complementary rather than competitive framework in which monetary policy in the form of the Taylor rule is joined by a similar fiscal policy rule. This framework is then used to consider methodological improvements in the Taylor and the fiscal policy rule to include lags, uncertainty in parameters and measurement errors.