# Welfare Effects of Fiscal Procyclicality: Who Wins with a Structural Balance Fiscal Rule?

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**Abstract**

This paper pursues a welfare analysis of fiscal policy in an economy with heterogenous agents and incomplete markets. The main quantitative exercise consists in measuring the gains of switching from the (procyclical) spending path of the typical developing country to the path prescribed by a structural balance fiscal rule (SBFR). These rules, aiming to achieve economic stabilization and provide public insurance, have received increasing attention from policymakers in the last years. Welfare gains are computed as functions of individual as well as aggregate features, including in the last case the cyclical stance of the economy and structural characteristics such as the way spending is targeted to different agents and the existence of public revenues that are mostly exogenous to the economic cycle (e.g. commodity revenues). In the benchmark model the average cost of fiscal cyclicality is 1% in consumption equivalents, with the largest gains, around 1.5% in consumption equivalents, obtained by low-skilled and poor workers.

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