

Reflections on Gender-Specific Effects of Crisis Policies

Paul Ramskogler, Helene Schuberth

Introduction

We live in an era in which coming to grips with one of the most severe crises in capitalism and an associated stagnation threat appears to be the biggest challenge for politicians and economists alike. In light of the epic scale of the crisis and the sheer time and effort likely to be needed to solve the most fundamental problems associated with its triggers, we run the risk of overlooking what some consider secondary issues that might be best dealt with once the growth problem has been solved. One such topic that has been rather low on the economic policy agenda of most advanced economies for so many years now is gender equality. However, it is a big mistake to regard the aim of achieving gender equality as an issue of minor importance. We claim that one of the most eminent but, at the same time, most overlooked dimensions of crisis policies is related to questions of gender equality.

Since the breakout of the crisis, unprecedented bank stabilization measures coupled with unheard-of monetary policy measures have been succeeded – at least in many European economies – by fiscal austerity and consolidation. Have crisis policies been neutral in their impact on men and women? The answer to this question is compounded by the fact that the transmission channels of how policies impact gender relations are complex and difficult to grasp empirically. Lack of reliable data is a further – general – problem in the domain of gender analyses. In this paper, we therefore do not aim to quantify the effects – this is done elsewhere (e.g. Ramskogler, Riedl and Schoiswohl, 2017) – but we want to deduce likely effects along the lines of stylized facts. In particular, we investigate how both the primary and the secondary distribution of income might have been affected and, in this context, look at the related effects triggered by fiscal and monetary policy as well as policies to stabilize the financial system. Specifically we hereby identify several possible channels through which direct and indirect factors might have affected gender equality. We will show that while on the surface some crisis related policies might have been gender-neutral, in particular indirect effects have been at work, creating a negative impact on gender equality. This includes asset related effects of monetary policy and the very important case of the labor-market-related impact of consolidation policies. In particular we will argue that it is very likely that crisis-related policies had a disadvantageous effect on the primary distribution of incomes.

The paper is structured as follows. First, we briefly sketch out major crisis policies in the monetary, fiscal and financial stability domain and their effect on the distribution of incomes, differentiating the primary and secondary distribution of income. Subsequently, we explore the effects of the different policies. Here, we start with monetary policy, which mainly has effects on the primary distribution of capital incomes. We then discuss the effects of fiscal policy on the primary and secondary distribution of income. Finally, the gender dimension of the banking stabilization measures is briefly discussed. We conclude by summarizing our key findings.

Crisis Policies and the Distribution of Income and Wealth

Monetary Policy

Let us start with a brief discussion of the actions taken by monetary authorities. Monetary authorities around the world slashed their key policy rates after the onset of the crisis in an effort to ease the deleveraging process and stimulate investment activities. During the crisis they also expanded their balance sheets, stepping into the market and taking over large chunks of the wholesale money lending business. Such business had previously been conducted by commercial banks and became a vital refinancing tool for quite a large number of systemically important banks. The rapid erosion of trust after Lehman's failure in combination with the lender of last resort function of central banks quickly inflated the latter's balance sheets. This, however, was only a temporary remedy to pressing refinancing needs. As time progressed, central banks became more inclined toward bolder steps. Yet, policy rate reduction turned out to be insufficient to restart credit growth and push down market rates sufficiently strongly. Hence, monetary policy makers envisaged even bolder steps. Quantitative easing was implemented – at different speeds – by central banks across the industrialized world.

However, this alone did not suffice to kick-start growth again. As a result monetary authorities – sooner or later – started to buy assets, not just government bonds, but also broader classes of “high-quality” assets. The basic rationale for this follows the working of the bond market. After all, government bonds, being the security equivalent, “govern” the development of long-term interest rates. Buying government bonds pushes up prices of these assets; once prices on bond markets go up, rates (that are linked to these prices) go down. This way, long-term interest rates were substantially reduced.

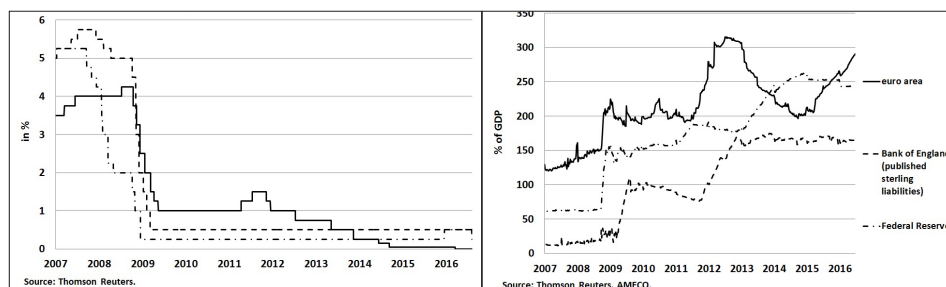


Figure 1a: Policy Rates. Figure 1b: Central Bank Balance Sheets

As a result we ended up with two developments: Interest rates were significantly reduced and at the same time asset prices were substantially inflated.

The first development, lower interest rates, can affect household income and its distribution via reduced debt servicing costs and reduced returns on assets. In a stylized scenario, O’Farell et al. (2016) find that the effect on income distribution through these channels is very limited. In most countries, the Gini coefficient of income increases slightly with lower interest rates.

A further yet thus far underexplored long-term effect of this is related to the effects of low interest policies on pension revenues. It is a well-established fact that low interest re-

venues compress the returns of capital based pension schemes (Antolin, Schich and Yermo 2011). With an increasing share of pensions being based on capital funded schemes this is an issue of intergenerational distribution implying that lower incomes of future pensioners are the sacrifice for higher incomes now. However, recall that – while male labor force participation is slightly declining – female labor force participation is constantly increasing in the industrialized world (Olivetti and Petrongolo 2016). Assuming this trend to continue, the proportion of women whose pension savings are most adversely affected by low rates is significantly increasing over time. As a result female pensions are likely to be over-proportionally affected by the low interest rate environment.

The second development, asset price increases, has recently attracted a stream of new research that attempts to quantify the effects of the mentioned unconventional monetary policies (UMP) – long-term policy reductions and quantitative easing – on different asset classes. The effects of UMP on markets on which central banks intervene directly apply to government bonds and, more recently, to bonds of non-financial corporations. Andrade et al. (2016) provide a summary of 24 studies and conclude that Quantitative Easing programs in the Euro Area, the US, UK and Japan reduced the yield on the respective 10-year government bonds. Through different pass-through channels, there are also effects on other assets not directly targeted by central banks. A clearly positive effect of expansionary UMP on stock markets is found by Rogers et al. (2014), Altavilla et al. (2015) and De Santis (2016), among others. The effect on housing markets is less clear and depends on country specifics, but there is evidence that it is likely to be positive (Rahal 2016, Huber and Punzi 2016).

The overall inflation of asset prices led to some concern regarding the distributional consequences of UMP. Relatively few households benefit from bond and equity price increases. Adam and Tzamourani (2015) show that increases in bond and equity prices affect only households at the top of the distribution. The merits of an increase in housing prices, however, are shared by larger groups. Inequality measures such as the Gini coefficient of net wealth consequently increase as asset prices increase, but drop with an increase in housing prices. A similar conclusion is reached by Domanski et al. (2016), who attribute rising equity prices as most important driver by which UMP increases wealth inequality. O'Farrell et al. (2016) note that higher inequality can reduce the effectiveness of monetary policy stimulus in boosting private consumption, and find small effects of monetary policy on income and wealth inequality.

Of course – as in the case of interest revenues – the dividing line between those who benefit from asset price inflation and those who do not runs not only along the wealth distribution, but also along other sociodemographic characteristics. For example, older households tend to hold more wealth than younger households, who tend to hold more debt. Along the lines of gender, the empirical literature typically finds a gender wealth gap, i.e. women owning less wealth than men (see Schneebaum et al. 2016 and the literature cited therein). The differences can be partly, but not fully explained by differences in covariates such as labour market characteristics. Schneebaum et al. (2016) document that there is a considerable difference between male and female single household wealth in the Eurozone. On average, the net wealth of male single households exceeds the wealth of female single households by 32% for the whole sample. This gap is driven by large differences at the top of the distribution, amounting to 27% in Portugal and 66% in Germany at the 99th percentile. The gender wealth gap remains at the top of the distribution, even controlling for covariates and selection issues.

The difference in wealth between men and women suggest that the positive effects of

UMP on households via asset price inflation will be higher for men, especially at the top of the wealth distribution.

It still has to be noted that the effects of unconventional monetary policies on wealth and income distribution mentioned up to now – via lower interest rate and higher asset prices – are only part of the overall effects. Spillovers to other economic areas have been noted. Most papers on the macroeconomic effects of UMP (e.g. Wu and Xin 2016, or Pesaran and Smith 2016) find that UMP measures reduced unemployment and boosted GDP growth at least in the short and medium run though gender-specific effects are hard to disentangle.

Fiscal Policy

In the euro area, fiscal policy went through two phases. The first – the phase of the initial reaction – was characterized by the free play of automatic stabilizers and the implementation of discretionary anticyclical fiscal measures. The second, starting around 2010, is characterized by – sometimes harsh – consolidation measures, which have been more pronounced in some economies than in others.

We therefore differentiate consolidation economies from economies in which consolidation was less pronounced. This is meant to help us identify gender-specific effects of the consolidation episode. The variable of choice to measure consolidation efforts is the structural primary balance calculated based on potential output as estimated by the European Commission, as this variable is also used in the context of fiscal rules.

All euro area economies, except Finland, experienced a reduction in their structural primary balance between 2010 and 2014¹ (see Figure 2). To measure countries with relatively strong consolidation efforts, we, however, used the euro area average as a benchmark. The group of high-consolidation economies thus consist of Slovakia, Slovenia, Portugal, Cyprus, Spain, Greece and Ireland – a quite intuitive sample. In the following, we use this distinction to analyze developments in the two country groups. Unless otherwise indicated, we rely on unweighted averages as they prevent developments in a single large economy from overshadowing a more general trend evident in many other economies.

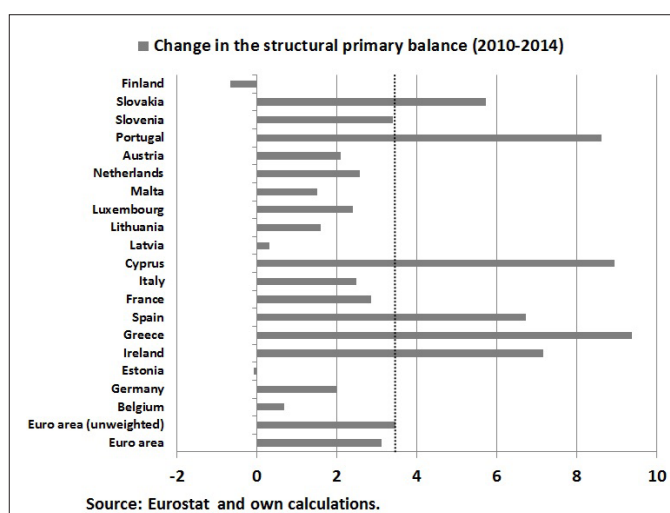


Figure 2: Consolidation in the euro area

Austerity and the Primary Distribution of Labor Income: To identify channels through which the state may affect the distribution of incomes, we start at a very basic level. The primary distribution of income results from “market” allocations, whereas the secondary distribution of income results from *direct* public interventions in the distribution.

It is, however, not possible to deduce from this that public effects on the distribution of income occur only in the transformation of the primary distribution of income to the secondary distribution of income. In particular, the public sector affects the allocation and distribution of production factors, i.e. the distribution of capital (especially via indirect taxes and transfers, e.g. subsidized loans, or via capital taxes) and of labor (via factors affecting human capital, such as the education system, and via the design of the overall wage setting-system). We thus have to bear both stages of the income distribution in mind when we aim to deduce assumptions about the gender-specific effects of crisis policies.

A fact about the crisis that has been discussed repeatedly (e.g. Schuberth 2011) is that there was a quite differentiated impact on gender as regards unemployment. Figure 3 shows that men were much more strongly affected by the initial impact of the crisis. In particular, between 2008 and 2010, it was primarily men that experienced a rise in unemployment, which is likely to be attributable to the still strong occupational segregation evident in European labor markets. Especially men are likely to have been hit by the crisis in sectors such as industrial production (tradables), the construction industry as well as finance. Indeed, the difference between the initial impact on the employment of men and women is remarkable in both country groups – countries with above- and countries with below-average levels of consolidation. However, while unemployment sank significantly for both men and women in non-consolidation economies, we see that, from 2010 to 2014, growth in female unemployment caught up rapidly in economies exhibiting above-average levels of consolidation. What was the reason for this? We can identify two different effects here: increased supply (via the added worker effect) and reduced demand (via a slowdown in public employment growth).

The added worker effect is a recurring theme in debates on gender-specific crisis effects. Simply put, this effect describes a situation in which spouses are pushed (back) into the labor force in an effort to substitute lost income by newly unemployed partners. Given the traditional distribution of gender roles, the net effect is much larger for women. Riedl and Schoiswohl (2015) demonstrated the existence of this effect for economies of the European Union for the crisis period. The longer and the more pronounced a crisis, the stronger this effect typically is.

However, there is a second effect that kicks in at this stage. Granted, occupational segregation can be invoked as a reason that unemployment initially hits men harder, but we also need to consider what happens next. The added worker effect is most pronounced in countries that experienced the largest shocks as, in the second stage from 2010 onward these countries switched to consolidation policies, quite often in combination with troika-induced adjustment programs. Put differently, at a time when quite a significant amount of women is pushed into the labor force, demand for labor in the public sector is constrained. Yet, in economies with occupational segregation, it is exactly the public sector that employs a relatively sizable share of women.

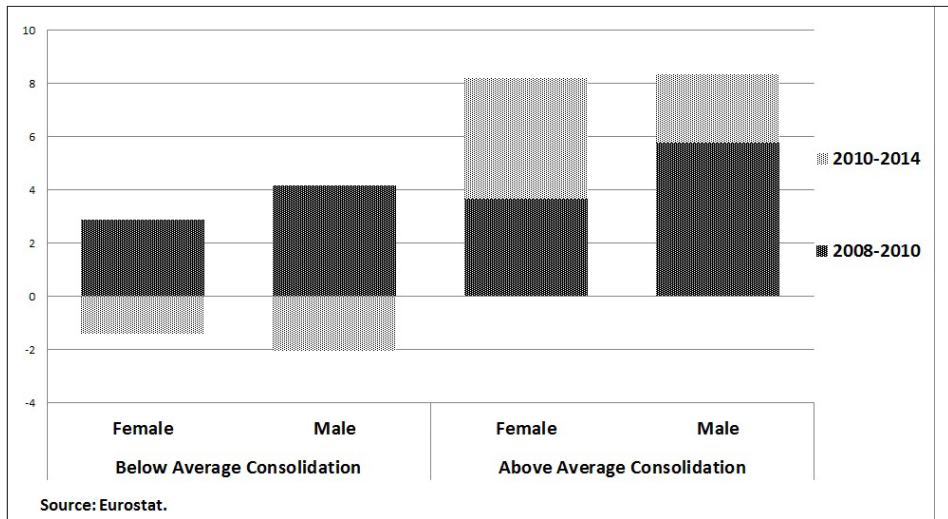


Figure 3: Growth in unemployment in % (unweighted sample), in 2008–2010 and 2010–2014

Let us depict this situation graphically in Figure 4. Assuming labor demand (L^D) and supply schedules (L^S) and interpreting the labor market for women and that for men as two distinct labor markets yields the following picture. We see that the initial shift of demand for men from L^{DM1} to L^{DM2} results in a new wage level for men W^{M2} . Prima facie this should have had a mitigating effect on the gender wage gap (as measured on the middle axis) if female wages were to remain at W^{F1} . However, two things happen in a second stage. First, we witness the added worker effect that shifts the labor supply schedule of women to L^{SF2} and increases female labor supply, thereby putting a downward pressure on wages. Second, public labor demand decreases, which shifts the labor demand curve downward to L^{DF2} . The finale wage rate of women thus is at W^{F2} and the gender wage gap that had been GWS^1 at the beginning now is GWS^2 .

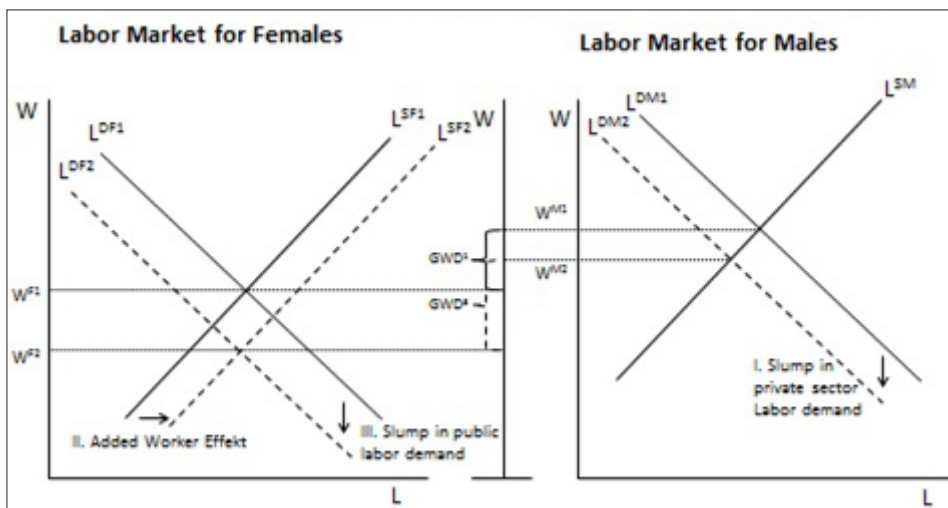


Figure 4: Shifts in Net Demand and the Gender Wage Gap

What is the overall effect of this development? Has the gender wage gap increased (that is $GWS^2 > GWS^1$). We know from the literature (Blau and Kahn, 2003; Olivetti and Petrongolo, 2014) that relative net demand effects might be relevant in the determination of the gender pay gap. Indeed, the importance of what has been labeled occupational effect – i.e. that part of the gender effect that is caused e.g. by the very occupation people work in as opposed to e.g. the years of schooling or of experience – has substantially increased over time (Olivetti and Petrongolo, 2016). When we consider the hypothesized sequence discussed above, it is not entirely clear what the aggregate effect on the gender wage gap is since – albeit unlikely – the extent of the initial shock (i.e. a slump in private sector demand) still might be large enough to outweigh the other two effects. Ramskogler, Riedl and Schoiswohl (2017) present evidence demonstrating that the aggregate effect is positive – yielding an increase in the gender wage gap – though.

Stylized facts presented in Figure 5 underline this finding. Until the crisis, the gender wage gap appears to have followed the overall trend for industrialized economies, namely a declining trend. From 2010, i.e. from the beginning of the consolidation period onward, we observe a rather different picture. While the entire euro area was apparently exposed to forces causing the gender wage gap to widen, this trend was significantly stronger in those economies that experienced the strongest consolidation episodes.² We thus end up with a strong indication that in particular more pronounced consolidation policies effectuated a widening of the gender wage gap due to decreasing relative demand for female labor.



Figure 5: Change in Unweighted Gender Wage Gap of the Private Sector

Austerity and the Secondary Distribution of Incomes: Now we turn to the most direct route of public intervention in the distribution of incomes; the effects of taxes and transfers and thus the secondary distribution of income. In Figure 6, we very roughly calculate the changes in income resulting from the respective taxes on capital, labor and consumption. Furthermore, we take a look at the factors driving the difference, be it changes in tax revenue or changes in the tax base. In particular a closer look at effects of the changing tax base helps to clarify the picture. An increase in the tax base decreases the effective tax rate if tax revenue does not increase by the same amount. On the other hand, given the fact, that

labour taxes are typically progressive, a declining tax base is expected to decrease effective taxation under all realistic scenarios, unless tax policies change or inequality increases instantaneously. To give an example, if labour income in, say Greece decreases substantially but tax revenue is constant we should see a positive contribution in the chart above. If taxation is proportional, as in the case of consumption taxes, the effect of a decreasing tax base on effective taxation should be linear.

The interpretation is counterintuitive on first instance. Though – once we overcome this impediment – the picture fits quite smoothly into our narrative. As in the example given above, we see effective taxation of labour in to increase substantially in the consolidation block, in spite of a reduction in the tax base. This gives some intuition that tax policies, either by increasing tax rates, broadening the tax rate or reducing tax evasion, increased the relative burden of labour. Consumption taxation, on the other hand, is enabled to decline. In contrast, tax base and revenue of both sources decrease almost simultaneously in non-consolidation countries. The look at capital taxes then underlines what we have indicated with regard to the effects of monetary policy above, i.e. that capital gains increased. Somewhat surprisingly though taxation of capital incomes did not increase by the same amount in consolidation economies.

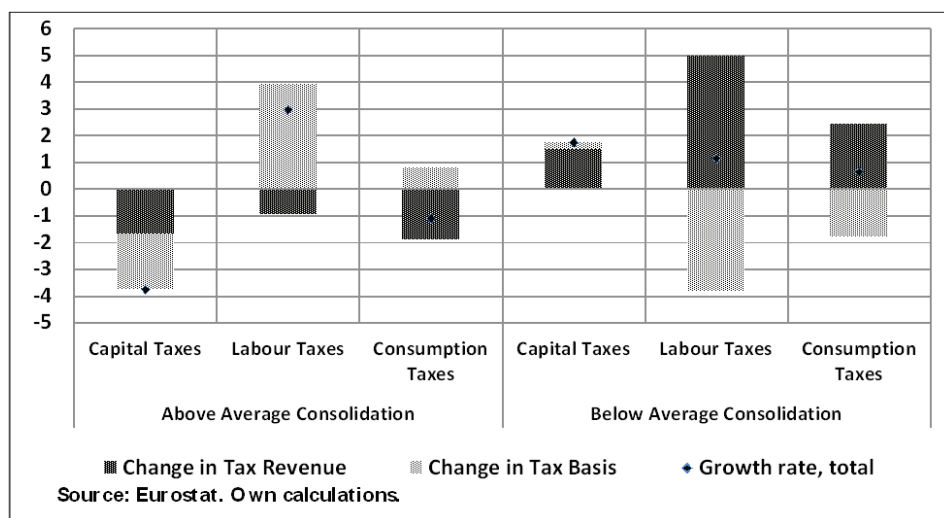


Figure 6: Change in Effective Taxation, 2008–2013 in Percentage Points

Interestingly, however these developments appear to have had a somewhat levelling effect on the net gender wage gap. This is quite consistent with the above observation of an overall increase in labour taxes, assuming that labour taxation has at least some progressive element to it in most countries in the euro area.

The above gives us some indication of possible gender-specific effects of the tax system. But, it is more difficult to evaluate gender-specific effects of the transfer system. We do know, though, that social transfers relative to GDP increased in above-average consolidation economies. However, given the limited data available it is impossible to deduce whether these transfers had any gender-specific effects. What we can say is that gender-specific differences in poverty rates have decreased since the crisis and more strongly so in countries with above average levels of consolidation. While it is likely that increases

in social expenditure have contributed to this development a large part of it might also be due to the fact that decreasing incomes tend to have on overall levelling effect on the distribution of incomes (Milanovic 2016).

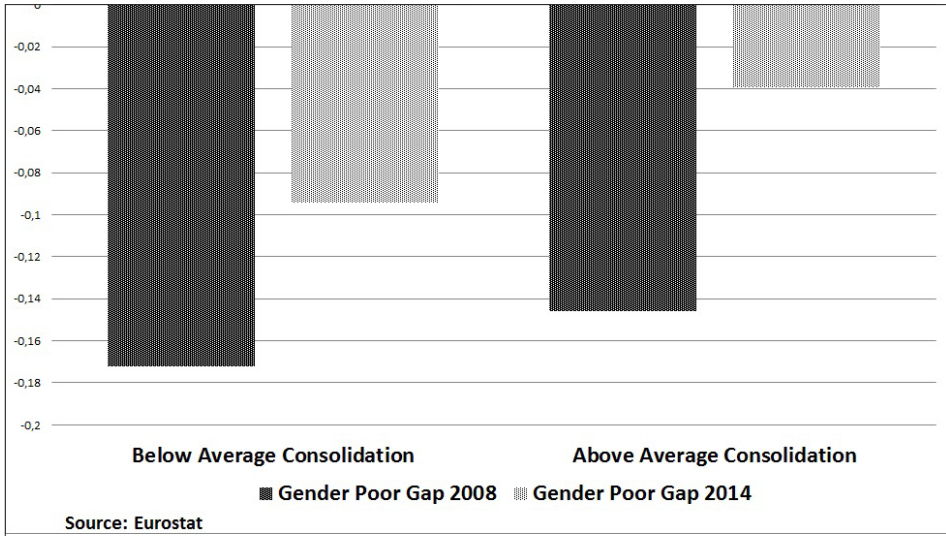


Figure 7: Gap between Men and Women Living in Housholds Affected by Poverty 2008 and 2014

Banking stabilization measures

An area in which fiscal and monetary policy intersect are bank stabilization activities. On the one hand central banks play a key role in bank oversight and monetary policy can only be fully functional if the transmission mechanism is working (that is when the banking system is stable). On the other hand it is usually the tax payer that has to step in in order to recapitalize failing banks.

Indeed, the euro area countries have engaged in banking stabilisation measures, which included capital injections, guarantees for the issuance of bank securities, bank asset purchases, swaps, and other guarantees. Up to end 2014 the bank rescue schemes amounted to a total government commitment of 15% of GDP for the European Union countries (see Figure 8). Almost 5% of GDP were used to recapitalise banks.

The fact that the stabilisation of the banking sector has been funded almost exclusively by the taxpayer – without contributions from shareholders, managers, or unsecured creditors – has attracted wide criticism from academics and non-governmental organizations. Economists have warned that the socialisation of losses and privatisation of profits have occurred at unprecedented levels, which involves moral hazard and sets the stage for another crisis. In an effort to shift the burden of bank rescues away from taxpayers and on to investors the EU agreed on bail-in rules imposing losses on a failing bank’s creditors, such as unsecured senior bondholders and large depositors. However, by end of 2016 this reform initiative has suffered a major backlash when the Italian government decided to bail out a large Italian bank despite of the fact that the vast majority of the bail-inable instruments are held by the wealthiest Italian households (De Groen 2016).

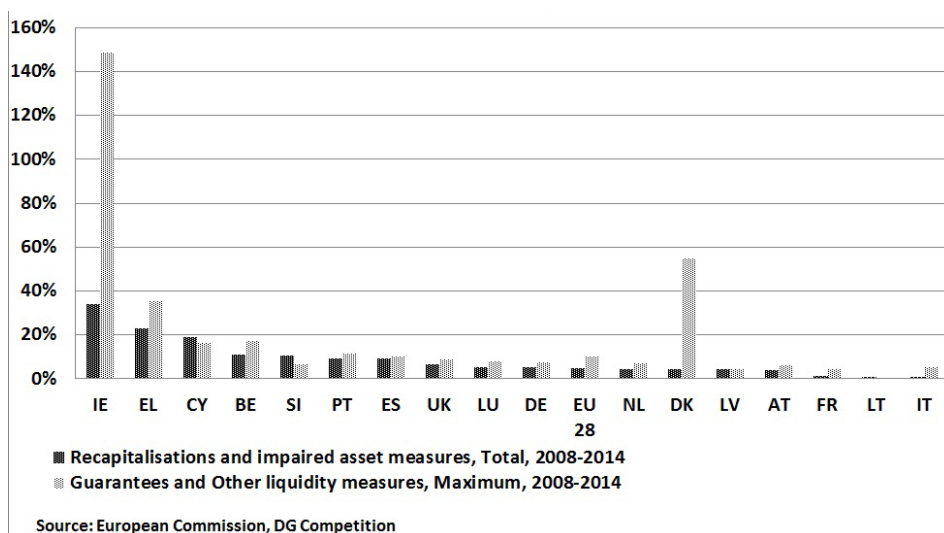


Figure 8: Banking Stabilization Measures in the Euro Zone 2008–2014 in % of GDP

Overall, banking stabilisation packages were crucial in stabilising the economies, but they have also contributed to a rebound in asset prices and corresponding tax-preferred capital gains, a rise in financial institutions' profitability and dividends and higher (executive) compensation in the financial industries – always in comparison to the counterfactual of no public intervention. They have, together with the measures adopted by central banks, secured the wealth of financial investors, who were again in the position of fully enjoying the upside risks while shifting the downside risk onto society as a whole. As a consequence financial wealth inequality has in general increased in the course of the crisis, which is in contrast to the common narrative of financial crises having the impact of diminishing wealth inequality. The measures adopted to counter the banking crisis were disproportionately favouring men. The rare empirical evidence on wealth inequality that accounts for gender differences indicates sizable gender disparity in financial wealth (e.g. Sierminska 2010, Schneebaum et al. 2016). Female employment profiles, such as discontinuous career profiles and lower-status employment – combined with the financial dependence on an additional income source which this type of working pattern entails – impede the accumulation of savings and the building up of a safety net over a working life.

Managers' compensation was restricted only in a few cases as part of conditionalities applied to financial institutions that received capital injections or public guarantees for bond issuance. The banking stabilisation packages contributed to a steady recovery in profitability of the financial sector that allowed above all sustaining excessive managers' compensation during the financial crisis. Women, who are underrepresented in management positions in the financial industry, enjoy the benefits of these compensation practices only to a minor extent.

Summary and conclusions

We have demonstrated that crisis policies can have the most diverse – both conducive and detrimental – effects on gender equality. However, as we have been overwhelmed by the challenge to fight the most severe crisis of our lifetime, the potential gender-related effects of crisis policies have, as a rule, been overlooked.

Granted, many crisis policies appear to be neutral on the surface. Monetary policy affects the policy rate and asset prices, and neither is there a gender-specific policy rate nor are there gender-specific asset prices. Bank stabilization restores financial stability, which should benefit all. Consolidation hampers the buildup of public employment or the tax and transfer system but usually it is perceived to act in a gender-blind way. However, our cursory analysis underlines once again that gender blindness does not necessarily imply gender neutrality.

In particular, the monetary policy measures taken during the crisis appear to have triggered unwarranted wealth effects that have somewhat contributed to wealth inequality between men and women. Furthermore, the gross gender wage gap has substantially widened in the economies with more pronounced consolidation policies. This development was arguably driven by the effects of these policies on the relative demand for female labor. Finally, while the individuals who reap the biggest personal gains from banking stabilization measures have been primarily wealthy males, it is the society at large that has been bearing the major costs associated with it. On the other hand, though, measures in the overall tax and transfer system seem to have had a somewhat equalizing effect as regards gender differences.

In aggregate, the overall effect of crisis policies on gender equality is very likely to have been negative. At this stage, we can only speculate, though. The fact that this is the case – and we only have very limited data and research about the effects of policies pursued during the crisis – underlines the low priority assigned to the target of gender equality on the policy agenda. Otherwise, it would be hard to understand that we can only derive limited insights at the moment. How can we possibly reach a target while being, in effect, blindfolded?

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Anmerkungen

- 1 We chose 2014 because many of our key analytical variables were not available beyond 2014.
- 2 Note that this is a development that is confirmed when analysing both data by the European Commission and data provided by the OECD (in which the consolidation bloc is complete while the non-consolidation bloc is less complete than above). For a more fundamental estimation exercise, see Ramskogler, Riedl and Schoiswohl (2016).